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1991 AMA Survey on The Pulse of the Customer

AMA Research Reports

Eric Rolfe Greenberg, Editor
Carol Canzoneri, Data Processing Associate
Moneshia Puri, Data Processing Intern

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The Pulse of the Customer

"Buy cheap and sell dear". For centuries, that instruction has defined the way to success in a market economy. Profits were mined in the margins between the price paid for materials and labor and the price charged for finished products. For customers, price was not only the key differentiator; it was very nearly the only one that mattered.

By no means has price lost its preeminence in the customer's decision to buy; all else being equal, the lower price will still prevail. But today's customers are increasingly aware that all else is rarely equal. Whether retail consumers or industrial purchasers, their calculations now include a variety of key service issues.

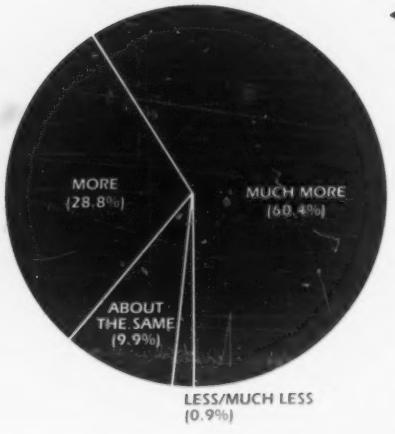
To be competitive on these issues, companies must gauge the importance of service to their customer base. They must seek out the most effective means to discover and anticipate customer needs, and to measure customer satisfaction. Most importantly, they must determine which factors matter most to their customers, and how best to improve corporate performance in each area.

In its 1991 survey on "The Pulse of the Customer," AMA research asked more than 1,000 sales and marketing managers these questions:

- What external pressures have compelled companies to give more attention to customer service?
- What are the most effective methods to gauge customer needs and satisfaction?
- What factors most influence their customers' decisions to buy, and where can the organization best improve its performance?

Summary of Key Findings

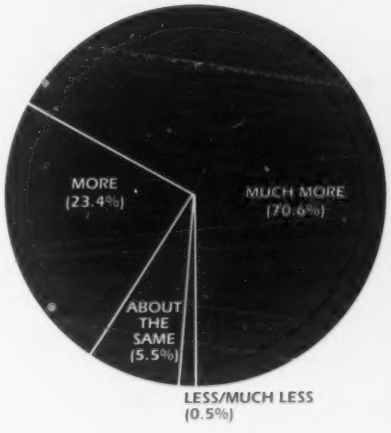
IS SERVICE MORE OR LESS IMPORTANT?

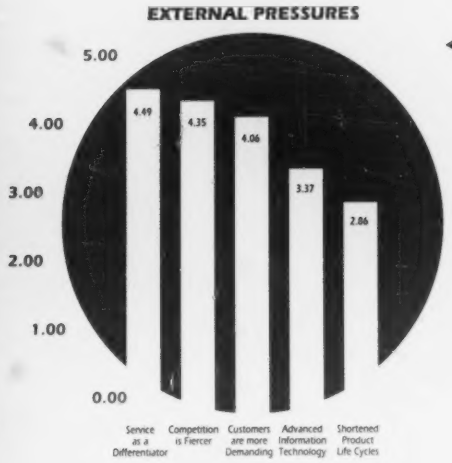


◀ Nine out of ten respondents agree that service issues are more important today than they were as recently as two years ago; only one in a hundred says they are less important.

And the trend will continue: by an even higher margin, respondents say that service will be **much** more important in the coming two years. The finding occurs in all business categories and in organizations of every size. ▶

WILL SERVICE BE MORE OR LESS IMPORTANT?



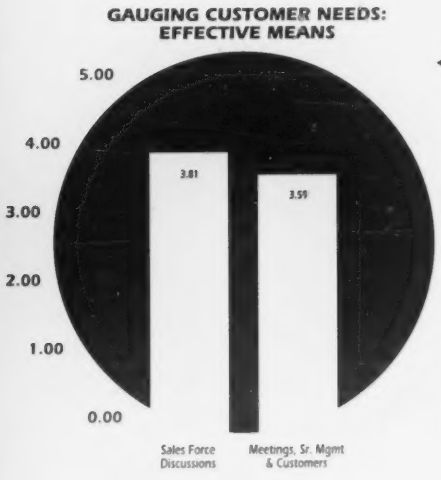


External Pressures: The most important element in the burgeoning importance of service issues is that service itself has become more important as a differentiator in the customer's decision to buy. On a scale where factors of the highest importance rated a five and those of least importance a one, "service as a differentiator" averaged a 4.49 mark — a very high level of consensus.

Wholesale and retail traders were especially insistent on this point, with an average mark of 4.67.

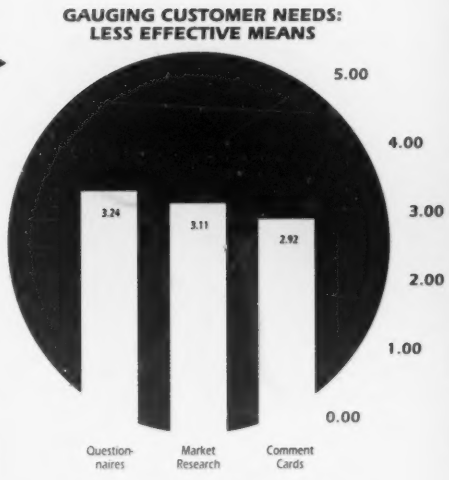
Other choices, with their average scores:

- More competition in the marketplace (4.35)
- Increasing customer demand for performance in the service arena (4.06)
- Development of advanced information technology (3.37)
- Shortening life cycle of products and services (2.86)

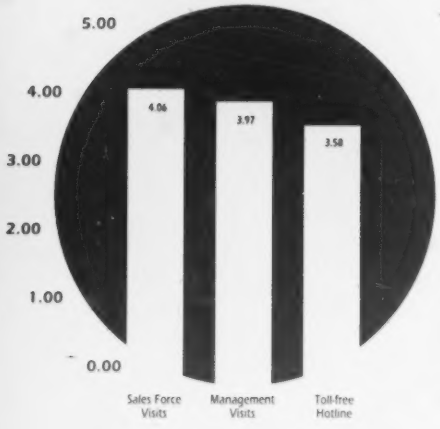


Anticipating Customer Needs: Two-way communication — regular meetings between customers and senior management, and regular discussions with the sales force — far outscore other methods to discover and anticipate customer needs on a five-point scale.

An exception: providers of financial services give **below** average scores to personal meetings, and **above** average scores to methods that lend themselves to quantitative analysis: customer questionnaires, comment cards and service assessment forms, and market research.



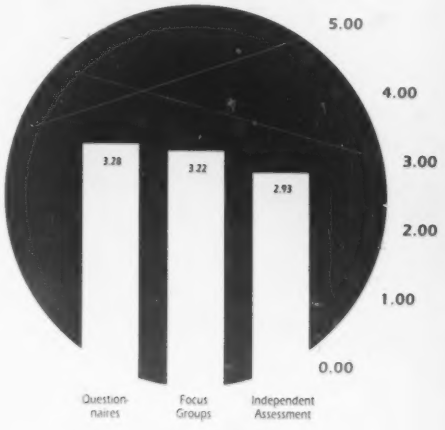
GAUGING CUSTOMER SATISFACTION: MOST EFFECTIVE MEANS



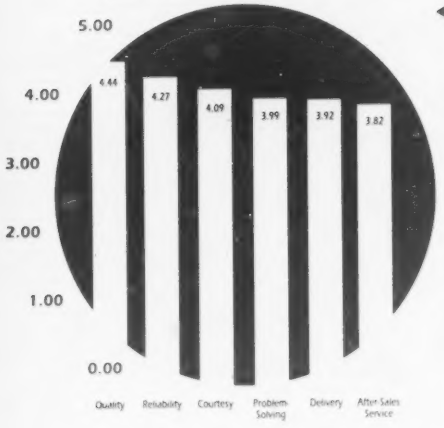
Measuring Customer Satisfaction: Again, respondents find face-to-face meetings (or voice-to-voice telecommunications) most effective in gauging customer satisfaction.

Focus groups, which score lower on the five-point scale, are formalized question-and-answer sessions rather than give-and-take discussions. Assessments by independent sources pose the same problem: who speaks for the company?

GAUGING CUSTOMER SATISFACTION: LESS EFFECTIVE MEANS



GREATER BUYING INFLUENCE

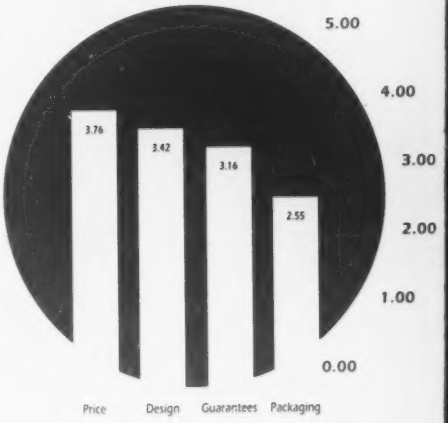


Buying Influence: Price ranked **seventh** among the ten listed factors that influence the buyer's decision. Price mattered most to customers in wholesale and retail operations, least to purchasers of business and professional services.

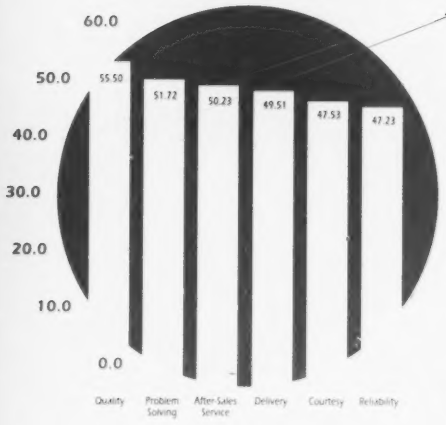
Every service-related issue save "guarantees" amassed a higher average than price on the five-point "buying influence" scale.

These averages exclude respondents who marked one or more factors as "not relevant to our business." The low scores for design and for packaging come largely from manufacturers who find service issues more influential in the customer's decision to buy.

LESSER BUYING INFLUENCE



SERVICE PRIORITY INDEX–TOP SCORES

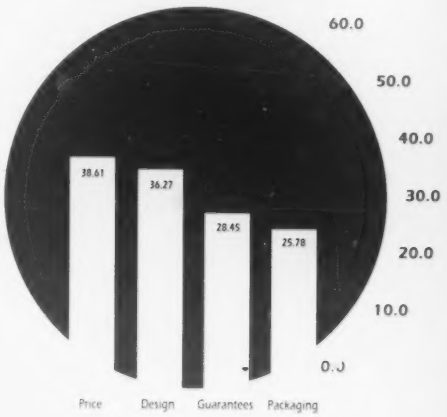


The Service Priority Index: The index combines responses to the query on buying influence with those to a matched query that asked, "Where is there most room for improvement in your organization?" The result is measured on a 100-point scale: high marks indicate that a given factor both highly influences the buy decision **and** allows significant room for improvement in the respondent organization.

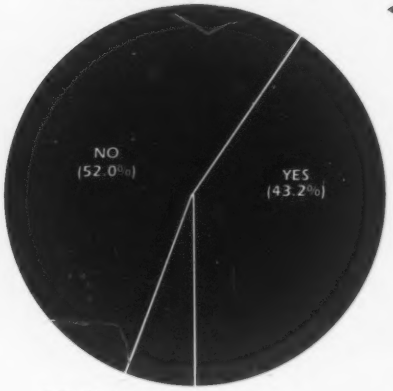
Respondents saw much room for improvement in quality and in after-sales service, accounting for their high index ratings. Problem-solving — here meaning the offer of a product or service that addresses a specific customer need — also rated highly.

Most respondents saw small hope of improving their competitive positions through pricing changes. Increasingly, service is the arena in which competitive battles are fought.

SERVICE PRIORITY INDEX–LOW SCORES



REGULAR REPORTS ON CUSTOMER SATISFACTION



Despite the evident importance of service issues, fewer than half the respondent firms issue regular reports and analyses on customer satisfaction. Two-thirds of the sample's wholesalers and retailers think that service will become much more important in the coming years, but only 38% quantify and analyze customer service data.

But over half the respondent firms feature quantified performance standards on key service issues. Service providers outscore manufacturers in this area, 57% to 51%.

QUANTIFIED PERFORMANCE STANDARDS

"The basic difference between a salesman and a hustler," a streetwise philosopher once said, "is that a hustler is only interested in **this** sale, while a salesman has his eye on the **next** sale."

Increasingly, customer service issues determine whether there will be a **next** sale. Survey findings give hard evidence that service has become the true competitive battlefield.

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About this Survey

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SIC Classification

- Agriculture, Forestry, & Fishing 0.5%
- Mining & Mineral Extraction 0.4%
- Construction 1.3%
- Manufacturing 44.5%
- Transportation, Communications, & Utilities 11.4%
- Wholesale Trade & Distribution 1.6%
- Retail Trade 6.7%
- Finance, Insurance, and Real Estate 7.7%
- Services 24.3%
- Public Administration 0.4%
- Unclassified and Unclassifiable Establishments 1.3%

Annual Sales*

- Under $10 million 25.8%
- $10-$49 million 26.8%
- $50-$249 million 21.5%
- $250-$500 million 5.6%
- Over $500 million 11.3%
- Not Reported 9.0%

*or operating budget, for nonprofit organizations.

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To be competitive on these issues, companies must gauge the importance of service to their customer base. They must seek out the most effective means to discover and anticipate customer needs, and to measure customer satisfaction. Most importantly, they must determine which factors matter **most** to their customers, and how best to improve corporate performance in each area.

In its 1991 survey on "The Pulse of the Customer," AMA research asked more than 1,300 sales and marketing managers in the U.S. and Canada these questions:

- What external pressures have compelled companies to give more attention to customer service?
- What are the most effective methods to gauge customer needs and satisfaction?
- What factors most influence their customers' decisions to buy, and where can the organization best improve its performance?

This special report for Canadian members of the American Management Association offers the answers provided by nearly 300 Canadian managers, and, where appropriate, compares their responses with those from U.S. companies.

Summary of Key Findings

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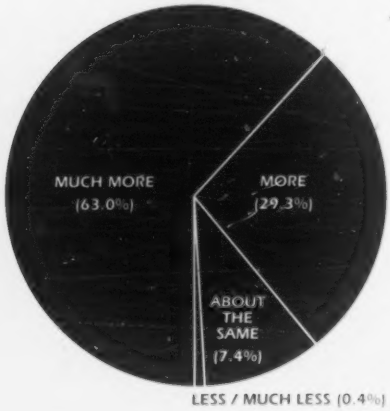
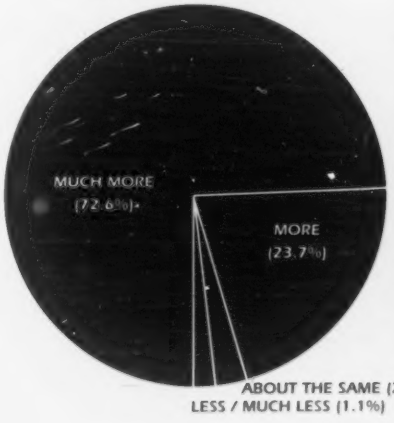


◀ Nine out of ten Canadian respondents agree that service issues are more important today than they were as recently as two years ago; only one respondent said they are less important.

And the trend will continue: 95% say that service will be more important in the coming two years. ▶

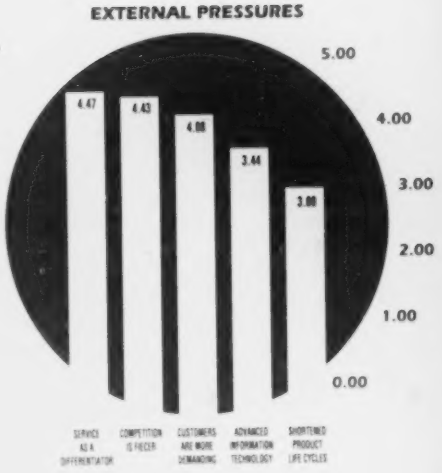
WILL SERVICE BE MORE OR LESS IMPORTANT?



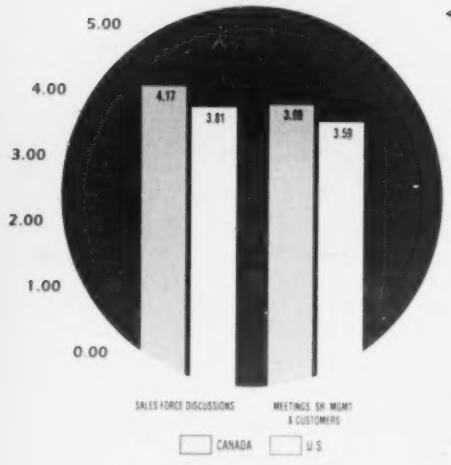
External Pressures: The most important element in the burgeoning importance of service issues is that service itself has become more important as a differentiator in the customer's decision to buy. On a scale where factors of the highest importance rated a five and those of least importance a one, "service as a differentiator" averaged a 4.47 mark among Canadian respondents — a very high level of consensus.

Responses from U.S. businesses averaged within a decimal point of Canadian marks. Canadian managers gave slightly higher scores to these factors:

- More competition in the marketplace (Canadian average, 4.42; U.S. average, 4.35).
- Product and service life cycles are shorter (Canadian average, 3.00; U.S. average, 2.86).
- Development of advanced information technology (Canadian average, 3.44; U.S. average, 3.37).



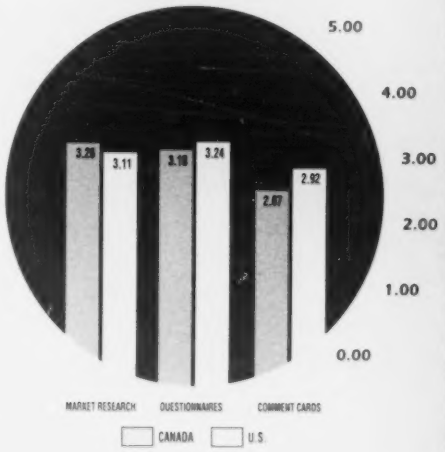
GAUGING CUSTOMER NEEDS: EFFECTIVE MEANS



Anticipating Customer Needs: Two-way communication — regular meetings between customers and senior management, and regular discussions with the sales force — far outscores other methods to discover and anticipate customer needs on a five-point scale. Canadian managers were especially emphatic in this regard.

Manufacturing concerns in Canada rated face-to-face meetings more highly than did service providers, who in turn gave higher marks to quantitative methods such as customer questionnaires, comment cards and service assessment forms, and market research.

GAUGING CUSTOMER NEEDS: LESS EFFECTIVE



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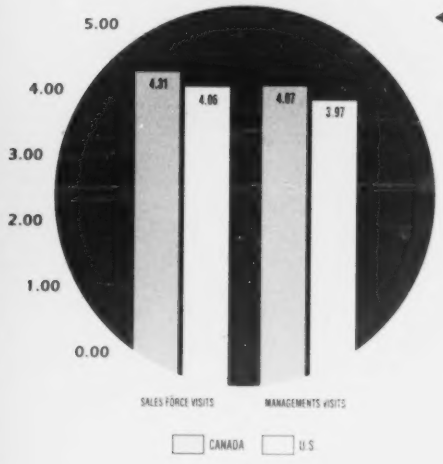

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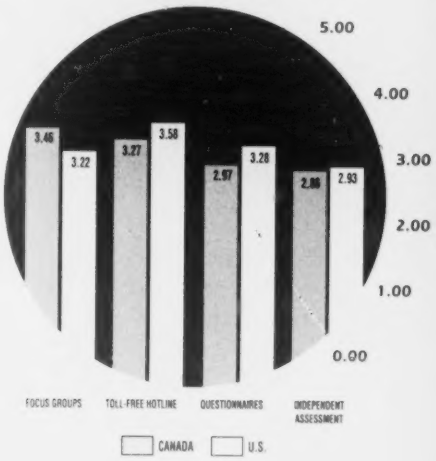
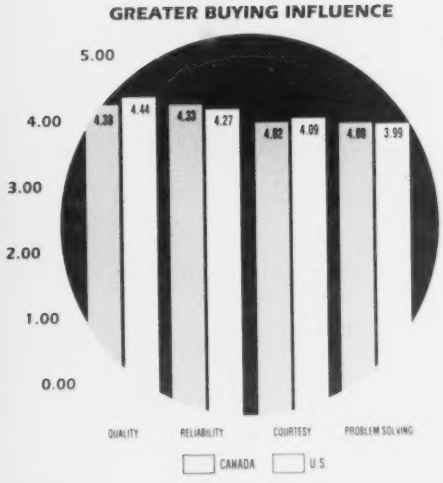
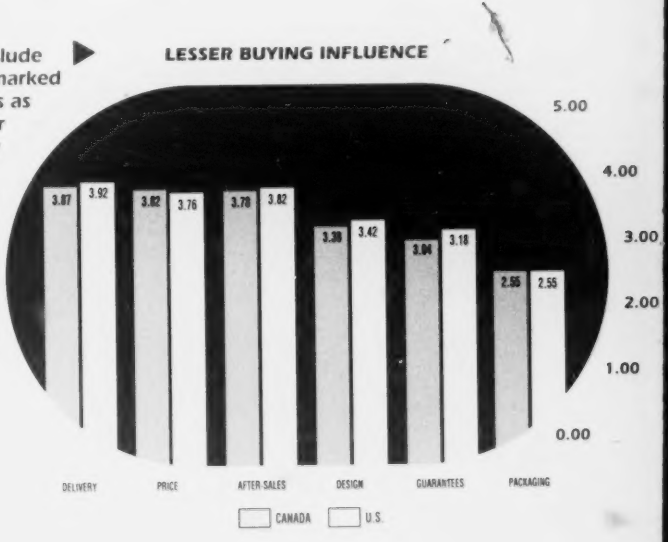




Buying Influence: Price ranked **seventh** among the ten listed factors that influence the buyer's decision, as rated by all respondents; it ranked sixth, slightly ahead of "after-sales service," among Canadian managers. Price mattered most to customers in wholesale and retail operations, least to purchasers of business and professional services.

Canadian and U.S. responses were virtually identical.

These averages exclude respondents who marked one or more factors as "not relevant to our business." The low scores for design and for packaging come largely from manufacturers who find service issues more influential in the customer's decision to buy.



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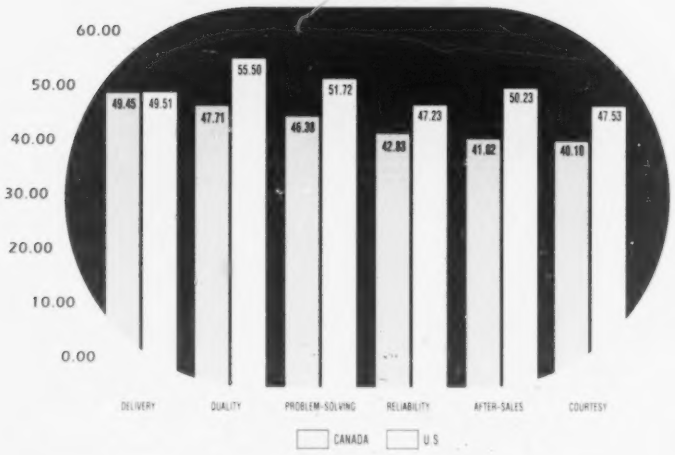

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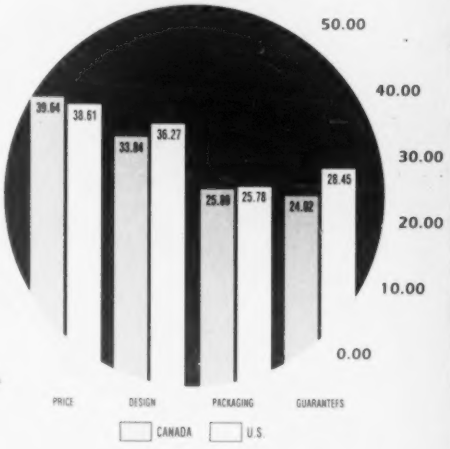
Canadian respondents saw less room for improvement than American managers in eight of the ten listed factors, accounting for lower ratings. The exceptions: price and speed of delivery, where Canadians, by very narrow margins, felt they had greater room for improvement.

Most respondents saw small hope of improving their competitive positions through pricing changes. Increasingly, service is the arena in which competitive battles are fought.

SERVICE PRIORITY INDEX–LOW SCORES



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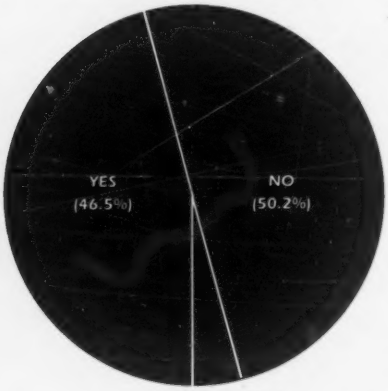
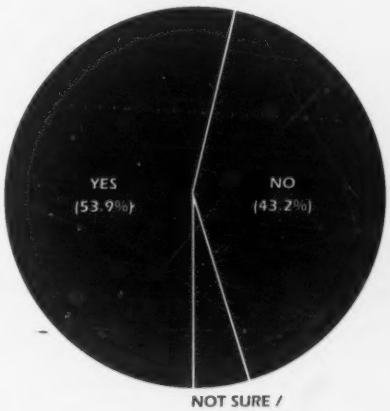


Despite the evident importance of service issues, fewer than half the Canadian firms issue regular reports and analyses on customer satisfaction, although they beat the U.S. mark by a narrow margin (47% of Canadian respondents, compared with to 43% of U.S. respondents).

But over half the Canadian firms feature quantified performance standards on key service issues. Canadian manufacturers outscore service providers in this area, 57% to 50% — the reverse of the U.S. finding, where 57% of service firms answered positively, compared with 51% of manufacturers.

QUANTIFIED PERFORMANCE STANDARDS



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Price continues to be a key factor in **this** sale, but increasingly, customer service issues determine whether there will be a next sale. Survey findings give hard evidence that service has become the true competitive battlefield.

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The same questionnaire was mailed on June 14 to 2,460 sales and marketing managers in Canadian concerns. By August 1 we had received 271 usable responses, a return rate of 11.0%.

The samples present the following statistical profiles:

Industry Classification	Canada	U.S.
■ Manufacturing	54.6%	46.7%
■ Transportation, Communications, & Utilities	5.2%	11.4%
■ Wholesale & Retail Trade	5.5%	8.3%
■ Finance, Insurance, and Real Estate	5.5%	7.7%
■ Other Services	28.4%	24.7%
■ Unclassified and Unclassifiable Establishments	0.7%	1.3%

Annual Sales*		
■ Under $10 million	19.9%	25.8%
■ $10-$49 million	30.3%	26.8%
■ $50-$499 million	33.2%	27.1%
■ $500 million or more	14.0%	11.3%
■ Not Reported	2.6%	9.0%

*or operating budget, for nonprofit organizations.

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A Research Report published exclusively for corporate members of the American Management Association

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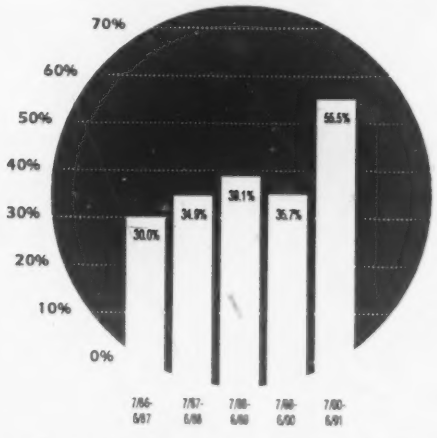
Downsizing and Assistance to Displaced Workers

In the 1980s, workforce reductions became a way of life for the American corporation. Compelled to cut costs by a variety of factors — international competition, high interest rates, and pressures to improve profit levels — many transformed "downsizing" into an ongoing corporate activity, carried out year after year without regard to current financial performance. Indeed, among companies reporting workforce reductions from 1986 to 1991, 75% were profitable in the year (or years) in which reductions took place.

But stakeholders — the wider community surrounding the corporation, including not only a company's employees and their families but also its customers, its suppliers and subcontractors, its unions, and the state and local governments affected by its operations — reacted to this changing environment by demanding higher levels of assistance for discharged workers. Companies themselves explored various options to outright discharge: early retirement packages, voluntary separation plans, and intra-company transfers. A structure of support arose within and around the organization to help those whose jobs were eliminated.

DOWNSIZING: THE FIVE-YEAR TREND



By 1990, recession was taking its toll on employment. But the same support structures put in place to help discharged workers in good times were available to those fired for the oldest of reasons: a business downturn.

For five years, AMA has traced these trends with surveys taken annually in June. Our 1991 effort found a record number of companies reporting workforce reductions over past twelve months. Some forms of assistance, notably outplacement services, also reached new highs. But many firms that downsize due to recession lack the resources to provide other types of support. An ebb tide lowers all boats.

RESEARCH

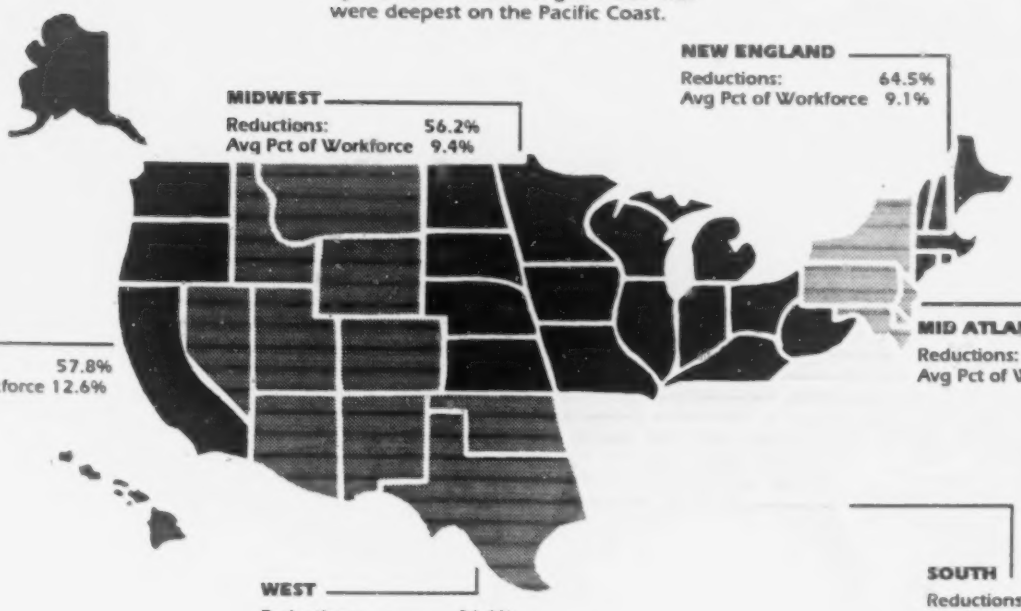
AMA

Summary of Key Findings

While the share of companies reporting reductions increased dramatically, the average percentage of the workforce eliminated declined to 9.6% from the previous year's 10.9%. The reason: large companies, frequently engaging in a second or third wave of reductions, cut fewer workers this time around. While more companies of every size eliminated **some** jobs, only firms employing fewer than 100 people made **deeper** cuts than before.

Half of the firms reporting cuts added workers in other divisions or locales. As a result, 10% of the firms reporting reductions realized a net **gain** in employees over the period, while another 11% saw no net change.

New England led the nation in reported reductions, closely followed by the Mid-Atlantic region. But cuts were deepest on the Pacific Coast.



NEW ENGLAND
Reductions: 64.5%
Avg Pct of Workforce 9.1%

MIDWEST
Reductions: 56.2%
Avg Pct of Workforce 9.4%

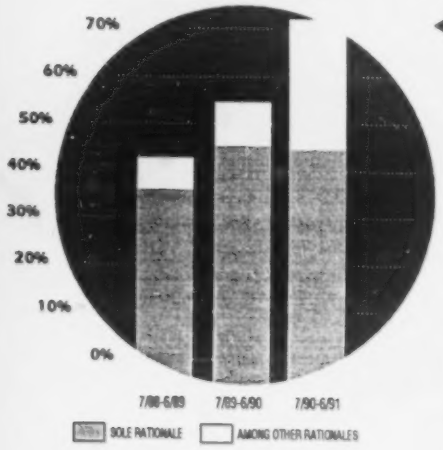
PACIFIC
Reductions: 57.8%
Avg Pct of Workforce 12.6%

MID ATLANTIC
Reductions: 62.1%
Avg Pct of Workforce 9.7%

WEST
Reductions: 36.1%
Avg Pct of Workforce 7.4%

SOUTH
Reductions: 52.4
Avg Pct of Workforce 8.2%

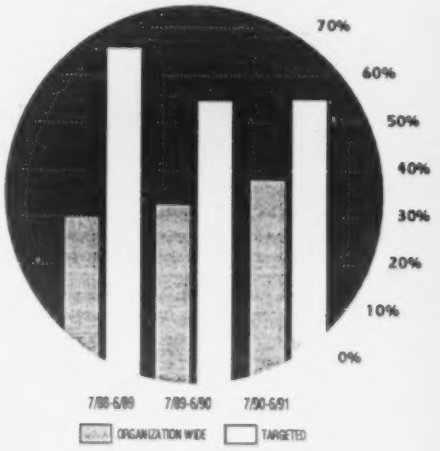
BUSINESS DOWNTURN AS RATIONALE FOR REDUCTIONS



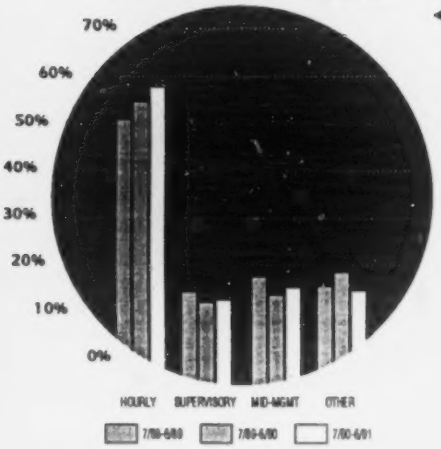
Rationales: Prior to 1990, the majority of reductions were due to mergers and acquisitions, transfers of work to other locales, and especially "improved staff utilization" — doing more work with fewer people. That changed with the onset of recession: a business downturn was responsible (in whole or in part) for 55% of the cutbacks reported in June 1990 and 73% of those reported in June 1991.

Descriptors: Only a third of reported reductions were "across the board," affecting most organizational units and locales. Most were targeted at specific functions or worksites. Even in recession, a majority of cuts are performed with a scalpel, not a meat-axe.

DESCRIPTORS OF REDUCTIONS



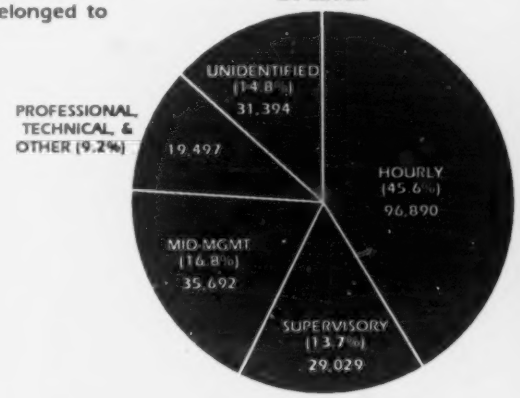
JOBS ELIMINATED – BY LEVEL



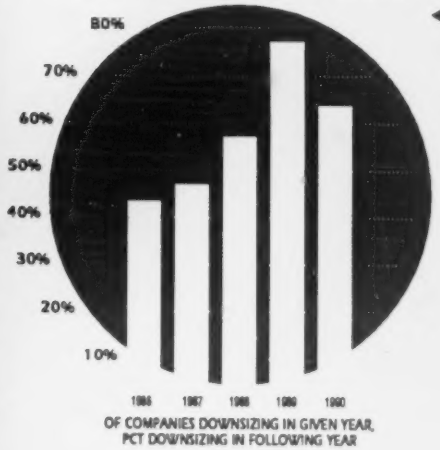
◀ Middle managers continue to bear the brunt of job losses. While middle managers make up from 5% to 8% of the nation's workforce, they averaged 16.2% of those discharged in the past twelve months. "Others" include professionals, technicians, and exempt workers with no direct managerial responsibilities.

Of 212,000 jobs cut by respondent firms over the past three years, more than 35,000, or 16.8%, belonged to middle managers. ▶

TOTAL JOBS CUT, 1989–91 BY LEVEL



ONGOING NATURE OF REDUCTIONS

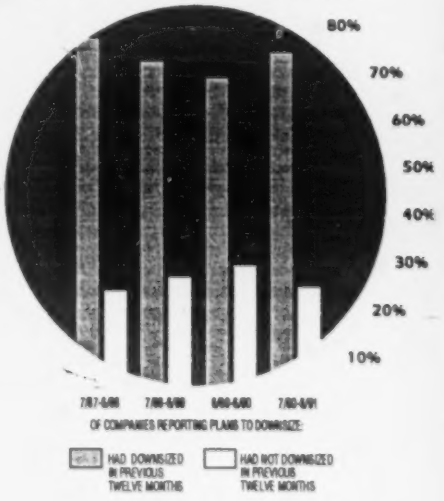


Survey findings underline the ongoing nature of workforce reductions. On average, 58% of the firms that downsized in a given year repeated the exercise in the following year.

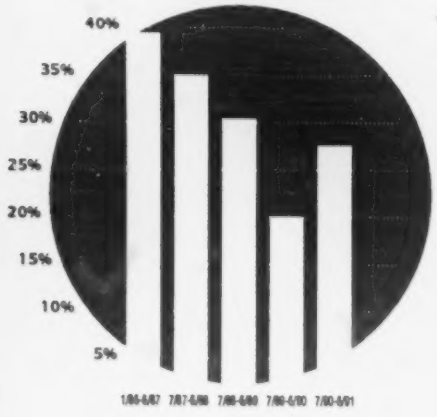
Other survey statistics confirm this pattern:

- 60% of surveyed firms that cut jobs in calendar 1990 downsized again in the first six months of 1991.
- 73% of surveyed firms that cut jobs in calendar 1991 had downsized in one or more of the previous five years.
- 21% of surveyed firms downsized at least three times in the past six years; an additional 23% downsized twice.
- Annually since June 1988, an average of 73% of those reporting plans to downsize in the **following** twelve months had downsized in the **preceding** twelve months.

ONGOING NATURE OF REDUCTIONS



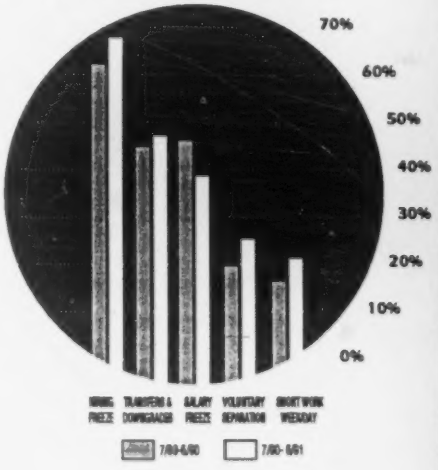
OFFERED EARLY RETIREMENT PLAN



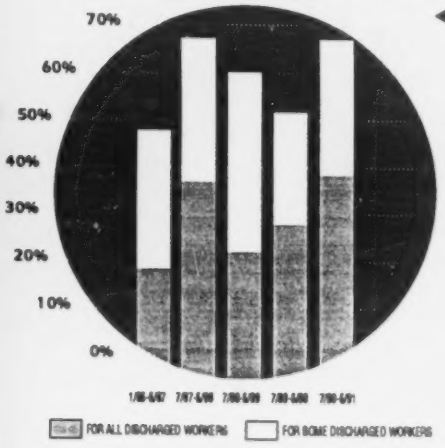
Companies pursue a variety of policies to prevent or reduce the need for outright discharge. Early retirement plans were foremost among such policies five years ago, but have lost favor due to oversubscription and the tendency to "lose people you want to keep, and keep people you want to lose."

Other policies have held steady. Hiring and salary freezes and mandatory short work-week or work-day plans are more likely to come into play when cutbacks are due to a business downturn; voluntary separation plans and intra-company transfers are more frequent when companies downsize for other reasons.

OTHER PREVENTIVE MEASURES



OFFERED OUTPLACEMENT ASSISTANCE



As recession approached, companies cut back in offering outplacement services — until the past year, when outplacement matched its previous high. Two-thirds of those reporting reductions rendered outplacement assistance. More than half of these firms did so for **all** of their discharged employees.

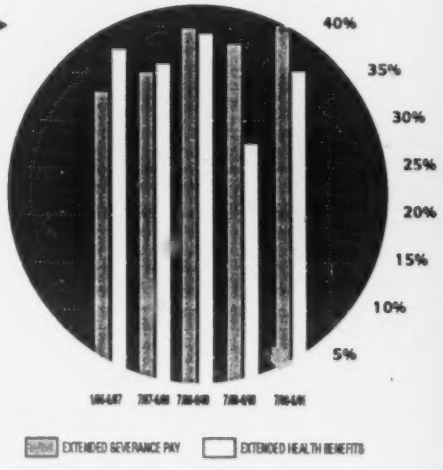
It should be noted, however, that outplacement services covers a very wide range of possibilities, from providing short training sessions and lists of approved counsellors to individualized and ongoing help until a new job is found.

Other forms of assistance:

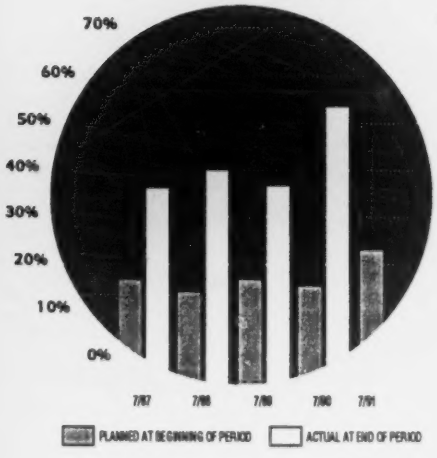
- 28% of firms reporting reductions gave extended severance packages to **all** departing workers, and 13% did so for **some** of those discharged.
- 26% offered extended health benefits to all departing workers, and 10% did so for some.

All such forms of assistance were more likely to go to managers than hourly workers.

OTHER FORMS OF ASSISTANCE

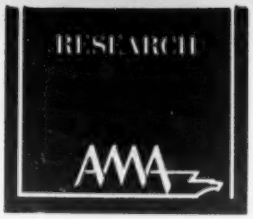


DOWNSIZING: PLANNED & REPORTED VS. ACTUAL



The AMA questionnaire asks about future plans as well as past actions. 22% of surveyed firms reported plans already in hand to make cuts in the twelve months from July 1991 to June 1992.

While this figure is far lower than the 55% that downsized from July 1990 to June 1991, it is **not** an indication that there will be fewer cutbacks in the coming year. Typically, the actual number of companies that downsize in a given period is more than double the number that report plans in hand at the beginning of the period; in June 1990 only 15% of surveyed firms planned future cuts, but nearly four times as many firms reported actual reductions in June 1991. This year's finding is a distant early warning of the numbers that will come.



About this Survey

The 1991 AMA questionnaire on downsizing and assistance to displaced workers was mailed on June 18, 1991, to 9,693 human resources managers who are AMA members or work in AMA-member companies. By July 15, we had received 910 usable responses, a return rate of 9.4%.

An AMA membership poll is not reflective of the American economy as a whole. Only 2% of the nation's incorporated businesses gross as much as $10 million annually; of the sample for this survey, 86% have annual sales of $10 million or more. Also, while 20% of American businesses are engaged in manufacturing, 44% of this survey's sample are manufacturers. The current sample is not identical to those of previous years, but is sufficiently similar to allow year-to-year comparisons.

The sample presents the following statistical profile:

Business Category

- Manufacturing 44.2%
- Wholesale and Retail Trade 6.5%
- Financial Services 8.6%
- Business & Professional Services 10.8%
- Other Services 29.1%
- Total Services 54.9%
- Unclassified and Unclassifiable Establishments 9.0%

Annual Sales (or operating budget, if nonprofit)

- Under $10 million 8.0%
- $10-$49 million 26.5%
- $50-$249 million 34.1%
- $250-$499 million 10.8%
- $500 million or more 14.7%
- Not Reported 5.9%

Total Number of Employees

- Fewer than 100 ..... 5.8%
- 100 to 499 ..... 33.5%
- 500 to 2,499 ..... 40.2%
- 2,500 to 9,999 ..... 15.6%
- 10,000 or more 4.3%
- Not Reported 1.0%

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AMA RESEARCH

AMERICAN MANAGEMENT ASSOCIATION

AMA

1991 AMA Survey On International Management

A Research Report published exclusively for corporate members of the American Management Association

AMA Research Reports
Eric Rolfe Greenberg, Editor
Carol Canzoneri, Data Processing Associate

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AMA RESEARCH

AMERICAN MANAGEMENT ASSOCIATION

AMA

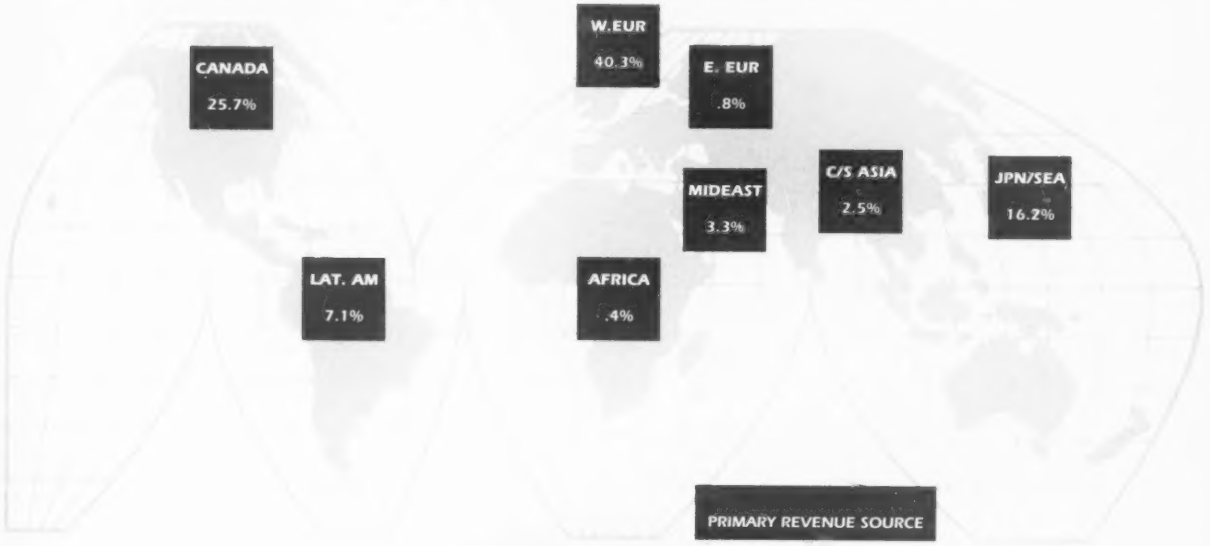
International Management

Globalism is the key word of the 1990s, but organizations that operate in the global economy must deal with many issues that differ in kind and in scope from the domestic scene. Setting priorities is a daunting task, and as global operations expand the problems increase in lockstep.

With this survey, AMA research set out to discover those matters that demand the international manager's greatest attention. Our questionnaire listed sixty distinct issues; respondents checked those they deem "very important" at present. We defined a "very important" issue as "one that demands significant management attention or investment, or that represents a potentially serious challenge to efficient operations."

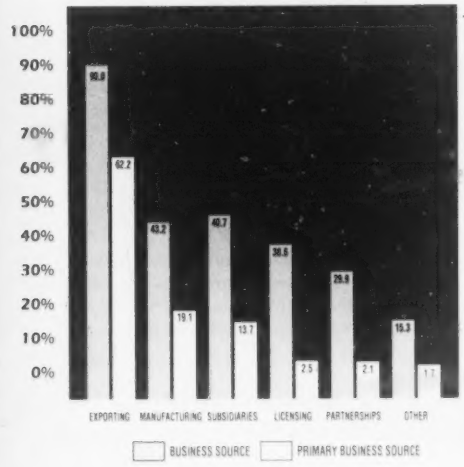
Because the corporate view often differs from the local one, we asked whether each issue was considered "very important" by headquarters **and /or** operating units. We also asked respondents to list three issues they currently consider **most** important. The tabulated responses appear on pages 7 and 8.

Nearly 250 U.S.-based manufacturers participated in this survey. Together, their reach is impressive: 47 percent derive revenues from each of the global regions indicated below, and 62 percent have operations in all four major regions: Western Europe, Canada, Latin America, and the Far East.



Summary of Key Findings

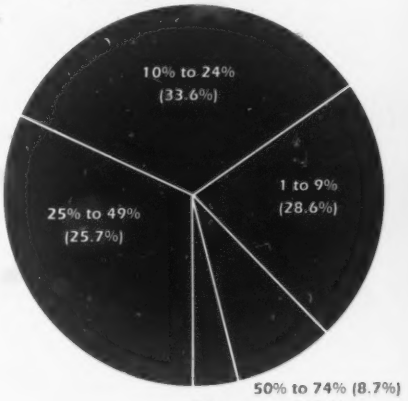
BUSINESS SOURCES OF INTERNATIONAL REVENUE



Business Revenues & Structure: The largest share of international revenues comes from exporting goods and materials. Export is the primary source of international revenue for a majority of respondents, and the **sole** source for 27%. The smaller the company, the greater the role of exports in its international operations.

As international operations account for a greater share of total revenues, overseas manufacturing and subsidiary operations begin to rival exports as a source of those revenues, and trans-oceanic trade grows.

PCT OF REVENUES DERIVED FROM INTERNATIONAL OPERATIONS



STRUCTURE OF INTERNATIONAL BUSINESS

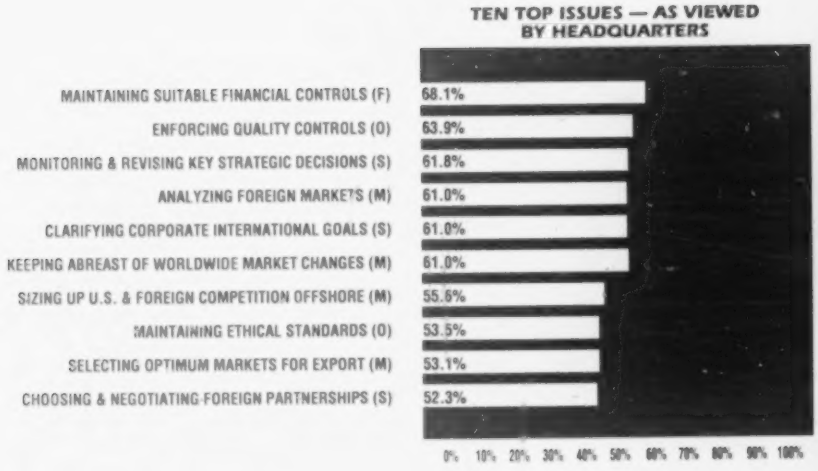
Larger companies are more likely to feature international divisions whose departments (marketing, human resources, etc.) are distinct from their domestic counterparts, while smaller firms more frequently organize by worldwide functions.

Though they were not identified or grouped as such on the questionnaire, each of the sixty listed issues fit into one of five categories: **strategic** (S), **finance** (F), **marketing** (M), **operational** (O), or **human resources** (H).

Top Issues, Organization-Wide: Of the issues most frequently cited as "very important" by headquarters, operating units, or both, four of the top five were marketing functions. Ninety-eight percent of respondent firms saw at least one marketing issue as "very important;" six percent so identified **all ten** marketing issues on the list.

TEN TOP ISSUES — AS VIEWED BY ENTIRE ORGANIZATION

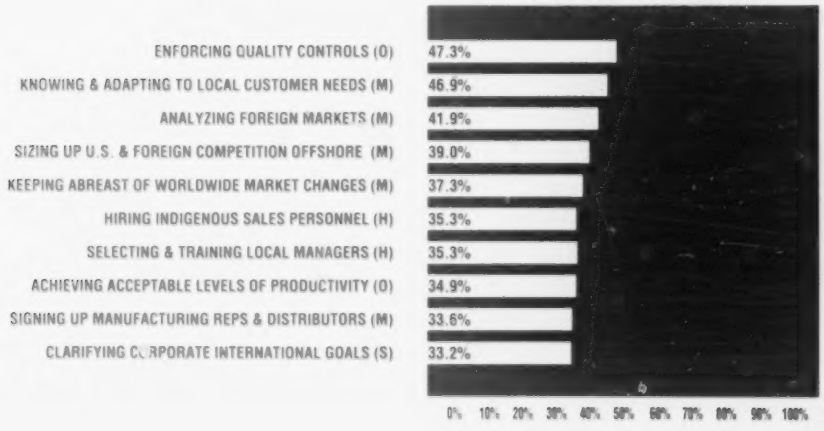
Top Issues at Headquarters: Strategic issues vie with marketing matters as top international concerns at corporate headquarters, but a finance issue leads the list. "Maintaining suitable financial controls" ranked 22nd among the concerns of operating units, but first at headquarters.



Top Issues At Operating Units: Human resources issues, which failed to make the top ten at headquarters, appear twice among the leading concerns of operating units.

Selecting, training, and compensating U.S. nationals for overseas posts rank low, but developing local talent is a major problem, especially among firms with foreign subsidiaries. Ninety-three percent of the companies that draw their primary international revenues from subsidiary operations said that "selecting and training local managers" was a major concern, compared with just 41% of all others.

TEN TOP ISSUES — AS VIEWED BY OPERATING UNITS



Most Important Issues: Asked "Which three issues do you regard as **most** important?", respondents concentrated heavily on marketing and strategic concerns.

- 54% listed at least one marketing issue among the three most important;
- 51%, at least one strategic issue;
- 22%, at least one operational issue;
- 20%, at least one finance issue; and
- 12%, at least one human resources issue.

For eight percent of respondent firms, all three of the "most important" issues were in the marketing category.

TEN ISSUES MOST FREQUENTLY LISTED AMONG MOST IMPORTANT

	SEEN AS VERY IMPORTANT BY ORGANIZATION	RANK IN CATEGORY	RANK AMONG ALL ISSUES	SEEN AS VERY IMPORTANT BY HEADQUARTERS	RANK IN CATEGORY	RANK AMONG ALL ISSUES	SEEN AS VERY IMPORTANT BY OPERATING UNITS	RANK IN CATEGORY	RANK AMONG ALL ISSUES	LISTED AMONG THREE MOST IMPORTANT ISSUES	RANK IN CATEGORY	RANK AMONG ALL ISSUES
STRATEGIC ISSUES												
CLARIFYING CORPORATE INTERNATIONAL GOALS	71.8%	1	8	61.0%	10	4	33.2%	1	10	24.9%	1	2
MONITORING & REVISING KEY STRATEGIC DECISIONS	69.3%	2	9	61.8%	3	3	27.0%	3	18	10.8%	3	7
DIRECTING THE STATESIDE EXPORT FUNCTION	67.6%	3	10	49.0%	9	14	26.6%	5	21	2.5%	7	24
CHOOSING & NEGOTATING FOREIGN PARTNERSHIPS	60.2%	4	14	52.3%	5	10	19.1%	9	37	9.5%	4	9
CHOOSING METHODS FOR ENTRY	59.9%	5	15	49.1%	11	13	20.1%	7	33	14.1%	2	4
ASSESSING REGIONAL POLITICAL/ECONOMIC RISKS	59.8%	6	16	42.3%	7	18	29.9%	2	13	0.8%	13	42
PRIORITIZING & SCHEDULING COUNTRIES FOR ENTRY	52.3%	7	22	39.4%	1	20	21.2%	6	31	3.7%	5	18
OVERSEEING THE CHANGING NEEDS OF SUBSIDIARIES	43.2%	8	29	31.1%	2	30	19.9%	8	35	0.8%	11	43
OPTIMIZING TWO-WAY COMMUNICATION WITH PARENT	42.7%	9	30	32.0%	4	29	27.0%	4	19	1.7%	9	31
DETERMINING THE BEST DEGREES OF DECENTRALIZATION	31.5%	10	45	25.3%	6	38	12.0%	11	49	2.1%	8	26
RATIONALIZING FLOW OF PRODUCTS AMONG DIFFERENT UNIT	27.8%	11	47	19.1%	8	50	15.8%	10	41	0.8%	12	44
MAKING ACQUISITIONS ABROAD	27.4%	12	48	23.2%	12	43	8.7%	13	55	3.3%	6	20
SITING AND BUILDING NEW PLANTS ABROAD	20.3%	13	54	14.5%	13	52	10.4%	12	52	1.2%	10	36
ANY STRATEGIC ISSUE:	97.5%			93.0%			66.0%			51.5%		
FINANCE ISSUES												
MAINTAINING SUITABLE FINANCIAL CONTROLS	73.4%	1	6	68.1%	1	1	26.1%	1	22	6.6%	1	10
HANDLING FLUCTUATIONS IN CURRENCY & INTEREST RATES	59.8%	2	17	47.3%	2	17	26.1%	2	23	4.6%	3	14
PRICING INTRACOMPANY TRANSACTIONS	48.1%	3	24	36.9%	4	22	24.9%	3	27	0.0%	12	55
ARRANGING LOCAL FINANCIAL AND CREDIT ABROAD	46.5%	4	27	34.4%	6	25	21.6%	4	30	2.9%	4	21
CONTROLLING ASSETS WORLDWIDE	46.1%	5	28	41.1%	3	19	12.5%	8	47	1.2%	6	32
AGREEING ON TIME FRAMES FOR PROFITS	41.9%	6	34	36.5%	5	23	19.9%	5	34	1.7%	5	27
ADMINISTERING DIVERSE TAX REQUIREMENTS	39.8%	7	37	34.0%	7	26	12.5%	7	46	0.4%	8	45
SUSTAINING FINANCIAL SUPPORT DURING DOWNSIZING	32.4%	8	44	24.1%	9	42	14.5%	6	43	0.8%	7	37
REPATRIATING OR REINVESTING OFFSHORE PROFITS	27.0%	9	49	24.9%	8	39	5.8%	11	57	5.0%	2	12
COSTING OUT CORPORATE CONTRIBUTIONS TO UNITS	24.1%	10	50	20.3%	10	48	9.5%	9	53	0.0%	11	54
INTEGRATING GLOBAL COMPUTER SYSTEMS	23.6%	11	51	19.1%	11	49	9.1%	10	54	0.4%	10	46
SUPERVISING BLOCKED FUNDS, AS IN SOME LCDS	16.6%	12	58	13.3%	12	54	5.0%	12	60	0.4%	9	47
ANY FINANCE ISSUE:	90.9%			88.0%			58.9%			19.5%		

	SEEN AS VERY IMPORTANT BY ORGANIZATION	RANK IN CATEGORY	RANK AMONG ALL ISSUES	SEEN AS VERY IMPORTANT BY HEADQUARTERS	RANK IN CATEGORY	RANK AMONG ALL ISSUES	SEEN AS VERY IMPORTANT BY OPERATING UNITS	RANK IN CATEGORY	RANK AMONG ALL ISSUES	LISTED AMONG THREE MOST IMPORTANT ISSUES	RANK IN CATEGORY	RANK AMONG ALL ISSUES
MARKETING ISSUES												
ANALYZING FOREIGN MARKETS	85.1%	1	1	61.0%	2	5	41.9%	2	3	24.9%	1	1
KNOWING & ADAPTING TO LOCAL CUSTOMER NEEDS	81.7%	2	2	50.6%	6	12	46.9%	1	2	9.5%	4	8
KEEPING ABREAST OF WORLDWIDE MARKETING CHANGES	80.5%	3	4	61.0%	1	6	37.3%	4	5	12.0%	3	6
SIZING UP U.S. AND FOREIGN COMPETITION OFFSHORE	74.7%	4	5	55.6%	3	7	39.0%	3	4	6.2%	5	11
SIGNING UP MANUFACTURERS' REPS & DISTRIBUTORS	73.4%	5	7	51.9%	5	11	33.6%	5	9	15.8%	2	3
SELECTING OPTIMUM MARKETS FOR EXPORT	66.8%	6	11	53.1%	4	9	26.6%	8	20	3.3%	8	19
PROTECTING TRADE SECRETS FROM PIRACY	60.2%	7	13	47.7%	7	16	27.8%	7	17	4.6%	7	15
TAILORING ADS & PROMOTIONS TO REGIONAL MARKETS	49.4%	8	23	26.6%	10	36	29.9%	6	15	1.7%	10	29
COPING WITH UNFAIR TRADE RESTRICTIONS	47.3%	9	25	37.8%	8	21	20.7%	10	32	5.0%	6	13
SELECTING & NEGOTATING WITH LICENSEES	42.3%	10	31	32.4%	9	27	17.0%	11	38	2.5%	9	23
OBTAINING LOCAL MARKETING SERVICES	39.4%	11	38	21.2%	11	47	22.8%	9	29	0.8%	11	41
DEALING WITH HOST COUNTRIES' PRICE CONTROLS	29.1%	12	46	16.6%	12	51	16.6%	12	39	0.0%	12	59
ANY MARKETING ISSUE:	98.3%			93.4%			66.8%			53.9%		
OPERATIONAL ISSUES												
ENFORCING QUALITY CONTROLS	81.3%	1	3	63.9%	1	2	47.3%	1	1	13.7%	1	5
MAINTAINING ETHICAL STANDARDS	65.1%	2	12	53.5%	2	8	31.1%	3	11	1.2%	5	35
ACHIEVING ACCEPTABLE LEVELS OF PRODUCTIVITY	52.7%	3	21	36.1%	3	24	34.9%	2	8	2.1%	3	25
PROCURING NEEDED MATERIALS & SUPPLIES ABROAD	41.9%	5	33	24.1%	7	41	26.1%	5	24	4.6%	2	16
COMPLYING WITH LOCAL LEGAL & OWNERSHIP REQUIREMENTS	41.9%	4	32	27.0%	5	35	25.3%	6	26	0.4%	6	50
FACING UNEXPECTED LOCAL OPERATING CRISES	40.8%	6	35	21.3%	8	45	29.9%	4	14	0.4%	9	51
EXCHANGING IDEAS & TECHNOLOGIES AMONG LOCALITIES	38.6%	7	40	25.7%	6	37	24.5%	7	28	0.4%	7	53
PROMULGATING THE CORPORATE CULTURE ABROAD	35.3%	8	42	29.9%	4	33	10.8%	11	51	1.7%	4	30
MANAGING WITH MANDATED EMPLOYEE PARTICIPATION	23.2%	9	52	13.7%	9	53	14.1%	8	45	0.4%	8	52
COPING WITH LOCAL ANTI-MULTINATIONAL HOSTILITY	20.3%	10	55	10.8%	11	58	12.4%	9	48	0.0%	11	60
TAKING PRECAUTIONS AGAINST TERRORISM	17.4%	11	57	11.6%	10	55	11.2%	10	50	0.4%	10	49
ANY OPERATIONAL ISSUE:	94.2%			88.0%			67.2%			21.6%		
HUMAN RESOURCES ISSUES												
GENERATING COMPANYWIDE LOYALTY & MOTIVATION	58.9%	1	18	49.0%	1	15	29.5%	4	16	1.7%	3	28
HIRING INDIGENOUS SALES PERSONNEL	55.2%	2	19	32.0%	2	28	35.3%	2	6	1.2%	4	33
SPEAKING & UNDERSTANDING LOCAL LANGUAGES & CULTURE	53.9%	3	20	30.3%	4	32	31.1%	3	12	2.5%	2	22
SELECTING & TRAINING LOCAL MANAGERS	47.3%	4	26	24.5%	6	40	35.3%	1	7	4.2%	1	17
HIRING & TRAINING FOREIGN TECHNICAL EMPLOYEES	40.3%	5	36	21.2%	8	46	25.7%	5	25	1.2%	5	34
APPRAISING PERFORMANCE OF MANAGERS ABROAD	39.0%	6	39	28.2%	5	34	19.1%	6	36	0.8%	7	39
PLANNING SYSTEMATIC MANAGER DEVELOPMENT/SUCCESSION	36.9%	7	41	30.3%	3	31	14.5%	9	44	0.8%	8	38
COMPENSATING FOREIGN MANAGERS	32.7%	8	43	22.3%	7	44	15.3%	8	42	0.4%	9	48
DEALING WITH UNIONS AND LABOR LAWS ABROAD	22.8%	9	53	10.4%	11	59	15.8%	7	40	0.8%	6	40
SELECTING & TRAINING U.S. MANAGERS FOR OVERSEAS	18.3%	10	56	11.2%	9	56	8.7%	10	56	0.0%	10	56
PROMOTING & TRANSFERRING FOREIGN MANAGERS	15.3%	11	59	10.8%	10	57	5.8%	11	58	0.0%	11	58
COMPENSATING U.S. NATIONALS OVERSEAS	12.9%	12	60	9.1%	12	60	5.4%	12	59	0.0%	12	57
ANY HUMAN RESOURCES ISSUE:	88.4%			78.4%			63.1%			12.0%		

RESEARCH

AMA

About this Survey

About This Survey: The 1991 AMA questionnaire on international management was mailed in September 1991 to international managers who are AMA members or work in AMA-member companies. The sample of 241 U.S.-based manufacturing firms presents the following statistical profile:

Category and Standard Industrial Code (SIC)

- Food and Kindred Products (20) 3.3%
- Apparel and Products from Fabrics (23) 3.7%
- Furniture and Fixtures (25) 3.7%
- Chemicals and Allied Products (28) 4.6%
- Rubber and Plastics Products (30) 4.2%
- Fabricated Metal Products (34) 10.0%
- Industrial & Commercial Machinery (35) 21.2%
- Electronic & Electrical Equipment (36) 10.0%
- Transportation Equipment (37) 4.2%
- Intstrumentation, Medical & Optical Goods (38) 15.4%
- Other and Miscellaneous Manufacturing Industries 20.0%

Annual Sales

- Under $10 million 20.8%
- $10-$49 million 8.2%
- $50-$249 million 27.4%
- $250-$499 million 6.6%
- $500 million or more 6.2%
- Not Reported 0.8%

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AMA RESEARCH

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1991 AMA Survey on The Management of Technology

A Research Report published exclusively for corporate members of the American Management Association

AMA RESEARCH REPORTS

Eric Rolfe Greenberg, Editor
Carol Canzoneri, Data Processing Associate

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AMA RESEARCH

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The Management of Technology

The full range of technology drives today's business. A manufacturer may boast state-of-the-art production facilities, but an out-of-date communications system will dull its competitive edge. A service firm may excel in data communications, but its customers may find its telephone lines always busy.

Thus the American Management Association urged its survey respondents to consider their **total** technological package, present and future. Our survey instrument, with its various fields of inquiry, posed these essential questions: Where are you now, internally and competitively? Where do you want to be? What are you doing to get there?

In our mind is an old cartoon that pictured two men in vested suits standing proudly at the gates of a sprawling, spanking-new factory. "Well," says one to the other, "what'll we make?" Technology must be **managed** — planned, developed, paid for, and put to good use. If it doesn't result in a **market** advantage for the firm's products or services, or in a **cost** advantage to the business, why bother? And technology must be **weighed** for its effect on the firm's direction. If it doesn't match up with the company's business strategy, why expect it to yield advantage?

Our study of the data from more than 1,100 respondent firms uncovered these facts:

- Companies on the technological cutting edge are working hard to stay there — harder than companies attempting to catch up. These leading edge firms are busier upgrading their technologies, and rushing them on line more quickly; and they expect to gain a more immediate competitive advantage from these innovations than other companies anticipate.
- By allocating the resources now, companies on the leading edge expect to save money in the future. Their operating and development costs are less likely to rise, and if they do rise, it will be at a lesser rate.
- They are able to drive these changes because they have the enthusiastic support of senior management; because the organizational environment welcomes innovation and change; and because the technical staff itself, rather than internal or external customers, are creating the impetus for change.

What kind of organization rides the leading edge to competitive advantage? Why do some firms flourish while others founder? The data tells the story.

Summary of Key Findings

COMPETITIVE POSITION:

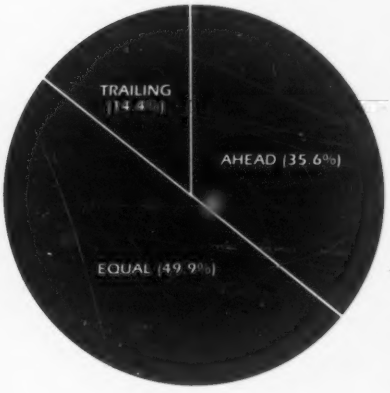
To establish competitive benchmarks for respondent firms, we posed this question:

> With its present technology, your organization's competitive position within your industry is:

- Ahead of the competition with leading-edge technology
- Equal to the competition with up-to-date technology
- Trailing the competition with out-of-date technology

A third of all respondents placed themselves at the leading edge, slightly over half were up-to-date, and 15% said they trailed.

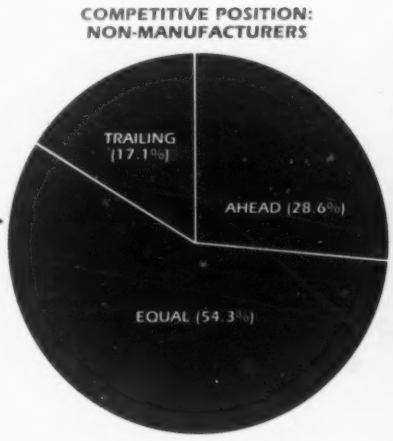
COMPETITIVE POSITION: MANUFACTURERS



Manufacturers describing themselves as "ahead of the competition with leading edge technology" included 45% of the sample's producers of apparel and finished fabric products, 48% of chemical firms, and 56% of makers of instrumentation, optical, and medical devices. Trailing the competition were 23% of the primary metals industry, 21% of printing and publishing firms, and 23% of food processors and providers.

Service firms who said they are ahead of the competition with leading edge technology included 48% of the sample's providers of business services, 40% of the communications firms, and 33% of retail traders. Among those trailing with out-of-date technology were 23% of wholesalers and distributors.

COMPETITIVE POSITION: NON-MANUFACTURERS



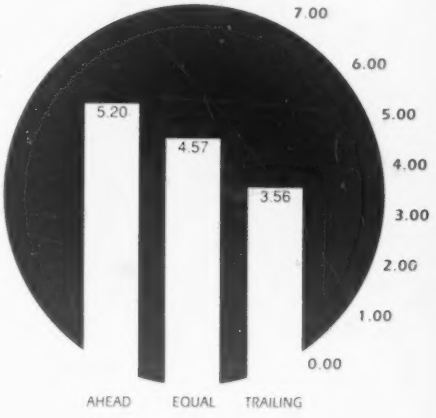
ENVIRONMENTS: Innovation and change are noticeably more welcome in leading edge organizations, not the least because the technological package aligns well with business strategy.

DEALING WITH TECHNOLOGICAL CHANGE (LEADING EDGE FIRMS)

The higher the number on the seven-point scale provided, the better the match of a firm's technologies with its business strategy. Leading edge firms gave themselves significantly higher marks.

How well does the organization deal with technological change? Leading edge companies were four times more likely to welcome such change than were firms that trail the competition.

MATCHING TECHNOLOGY TO BUSINESS STRATEGY



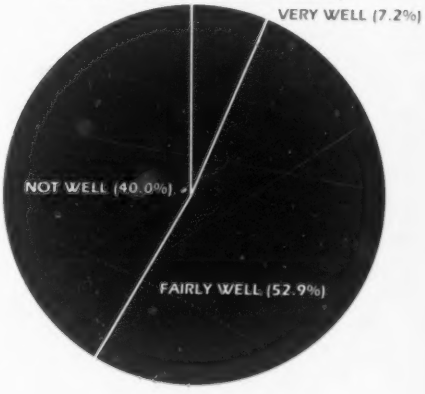
DEALING WITH TECHNOLOGICAL CHANGE (TRAILING FIRMS)

DEALING WITH OTHER FORMS OF CHANGE (LEADING EDGE FIRMS)

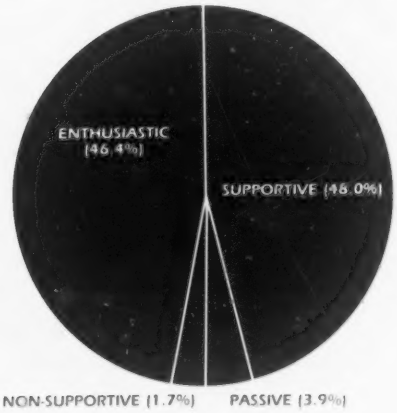
Nearly half of the firms with out-of-date technologies reported high levels of resistance to **new** technologies.

Compared with 21% of leading edge firms, a bare 7% of the trailing organizations reported that they warmly welcome other, non-technological forms of change and innovation. Overall, manufacturing firms proved slighly more resistant to innovation than non-manufacturers.

DEALING WITH OTHER FORMS OF CHANGE (TRAILING FIRMS)



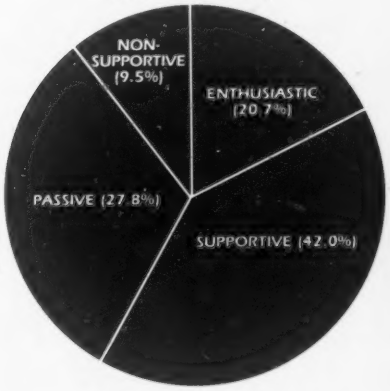
SENIOR MANAGEMENT ATTITUDES (LEADING EDGE FIRMS)



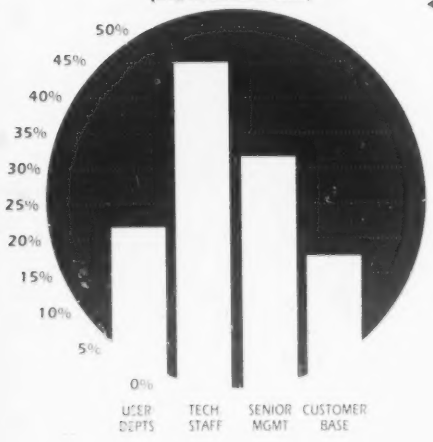
Nearly half of the leading edge firms reported that senior management gives "enthusiastic" support to the introduction and utilization of new technologies.

Companies with out-of-date technologies were seven times more likely than leading edge firms to characterize senior management as 'passive' or 'non-supportive.'

SENIOR MANAGEMENT ATTITUDES (TRAILING FIRMS)



ORIGIN OF IMPETUS FOR TECHNOLOGICAL CHANGE (LEADING FIRMS)

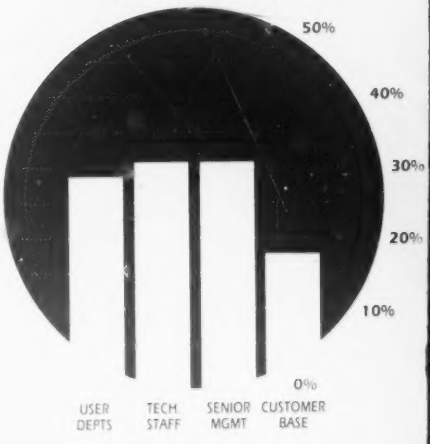


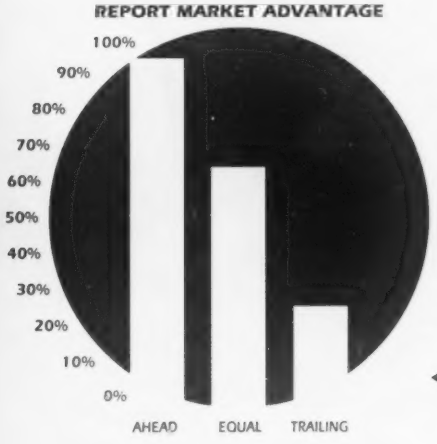
Technicians, not end users, most often provide the impetus for technological change in leading edge organizations. Users may demand what the competition already has at work, while technicians imagine new processes that yield a competitive **advantage**.

Companies that trail the competition reported more frequently that the impetus for technological change comes from user departments.

Overall, the larger the organization, the more likely that the drive for new technologies originates with the technical staff. Manufacturers (20%) are more reliant on the customer base for innovative change than are non-manufacturers (12%).

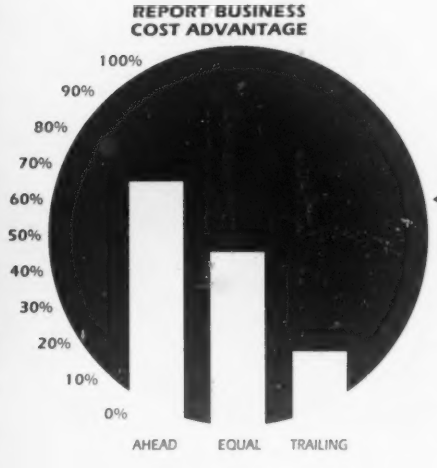
ORIGIN OF IMPETUS FOR TECHNOLOGICAL CHANGE (TRAILING FIRMS)





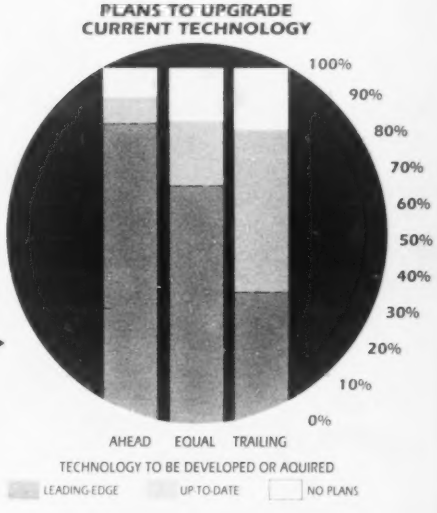
BENEFITS: Advanced technology is not a benefit in itself; it ought to yield a **competitive advantage.** This may take the form of a **market** advantage to products or services, or a **cost** advantage to business operations.

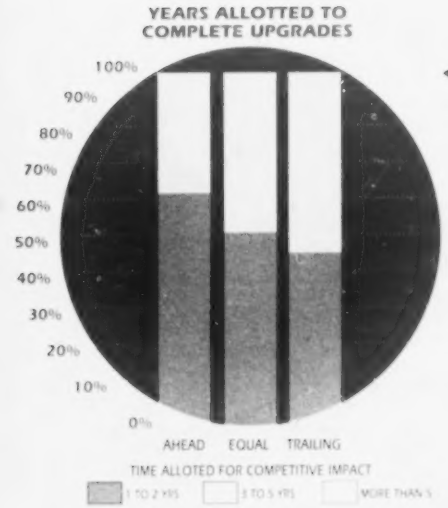
Nearly all the leading edge firms (95%) report that their present technology provides a market advantage over the competition. For 89% of these firms, the advantage takes the form of enhanced product performance or service delivery; the remainder cite other reasons.



Two-thirds of the leading edge firms report that their present technology provides a cost advantage to the business. 88% of these companies say that the cost advantage comes from enhanced productivity; 12% cite other reasons.

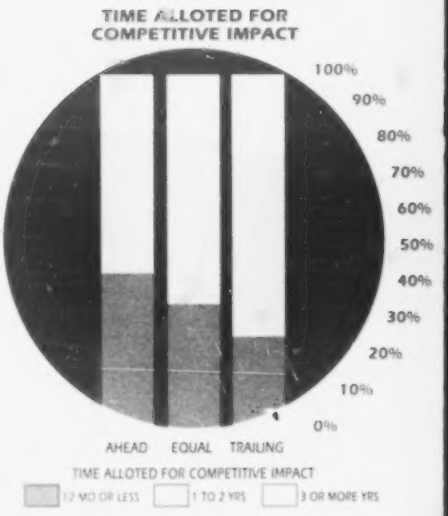
Leading edge firms are committed to maintaining their competitive advantage via technological upgrades. Eight out of ten currently plan to develop or acquire **new** leading-edge technology. In comparison, only a third of the firms that trail the competition report such plans.



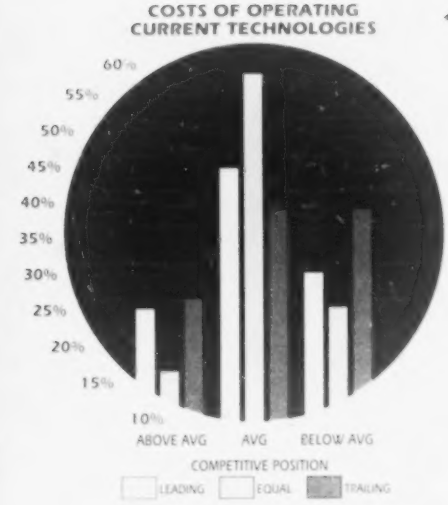


On average, leading edge firms will complete their upgrades in 2.5 years, compared with an average 3.4 years for out-of-date firms.

And leading edge companies expect new technologies to yield benefits quickly. 42% expect a competitive advantage in a year or less; only 25% of trailing firms work on the same assumption.

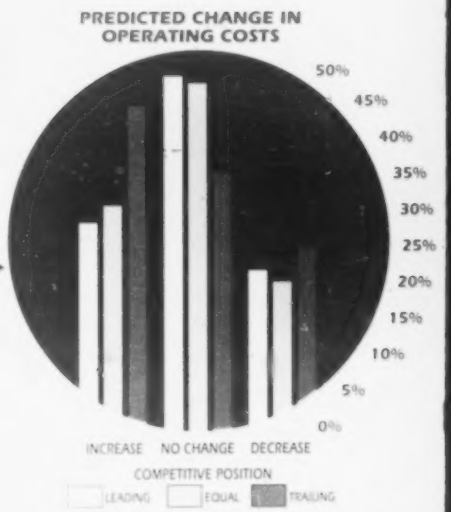


COSTS: Respondents were asked to compare their costs of operating present technologies, and of developing or acquiring new technologies, with others in the same industry.

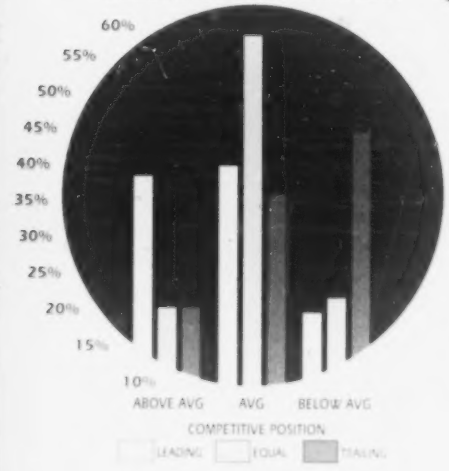


Companies that trail the competition were more likely to report that **current** operating costs are below industry averages.

But far more of these trailing firms expect operating costs to rise over the next three years, and at a higher average annual rate (10.1%, compared with 7.9% for leading edge firms that anticipate a cost increase). While leading edge firms may have higher costs **now**, they will realize important savings down the road.



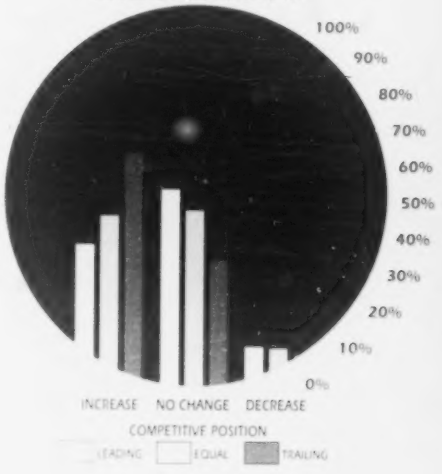
COSTS OF DEVELOPING / ACQUIRING NEW TECHNOLOGY



Leading edge firms were twice as likely as others to report that their current acquisition and development costs are above industry averages, and nearly half the trailing firms reported below-average costs.

But far more out-of-date firms expect development costs to rise, and at a higher annual rate (an average 11.9%, compared with 9.5% for all others expecting an increase). Leading edge firms expect a greater rate of **decrease** in annual costs (11%, compared with 6.6% for others anticipating lesser costs).

PREDICTED CHANGE IN ACQUISITION DEVELOPMENT COSTS



FORECASTS: Technology-based competitive standings are relative, and constantly in flux. Based on combined responses to queries about **current** positions and **future** plans, we can paint pictures of our respondent base three years hence.

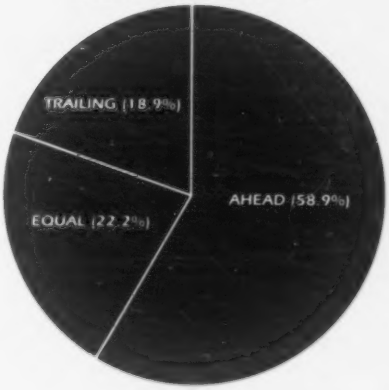
FORECAST COMPETITIVE POSITION (MANUFACTURERS)

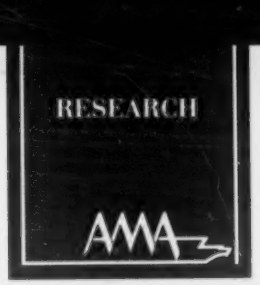
A majority of manufacturers plan to develop or acquire leading edge technology in the next three years. But in some firms plans are static, and others boasting state-of-the-art technology **now** are resting on their laurels.

Non-manufacturers will edge ahead of manufacturers.

Wishing will not make it so. Unless the organizational environment changes to match the profile of today's leading edge firms (a welcoming attitude towards innovation and change, and enthusiastic backing from senior management), technology itself will prove an uncertain resource in the 90's.

FORECAST COMPETITIVE POSITION (NON-MANUFACTURERS)





About this Survey

In the design of the survey instrument for this project, AMA received valuable guidance from Ron Mallis and Sam Fleming of Decision Resources, an Arthur D. Little affiliate based in Burlington, Massachusetts. We gratefully acknowledge their assistance. The final design, list selection, tabulations, and analysis are the entire responsibility of AMA Research Reports.

Our questionnaire was mailed on November 30, 1990, to 10,000 selected AMA members. Some 6,175 are manufacturing, purchasing, research and development managers, and 1,670 are information systems managers, in large and midsized corporations; an additional 2,155 are chief executives of smaller companies. We closed off returns on Friday, December 21, 1990, with 1,103 usable responses, an 11% return rate — somewhat above the average for an AMA membership survey.

This self-selecting sample presents the following statistical profile:

SIC CLASSIFICATION

- Agriculture, Forestry, & Fishing 0.6%
- Mining & Mineral Extraction 1.1%
- Construction 0.9%
- Manufacturing 59.5%
- Transportation, Communications, & Utilities 5.5%
- Wholesale Trade & Distribution 2.7%
- Retail Trade 1.6%
- Finance, Insurance, and Real Estate 5.1%
- Services 18.9%
- Public Administration 1.9%
- Unclassified and Unclassifiable Establishments 2.1%

ANNUAL SALES*

- Under $10 million 21.0%
- $10-$50 million 24.6%
- $50-$249 million 26.0%
- $250-$500 million 8.1%
- Over $500 million 17.7%
- Not Reported 2.6%

*or operating budget, for nonprofit organizations.

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AMA RESEARCH

AMERICAN MANAGEMENT ASSOCIATION

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1992 AMA SURVEY ON WORKPLACE DRUG TESTING AND DRUG ABUSE POLICIES

A Research Report published exclusively for corporate members of the American Management Association

AMA Research Reports
Eric Rolfe Greenberg, Editor
Carol Canzoneri, Data Processing Associate
Isabelle Hofmann, Intern

We gratefully acknowledge those who assisted in the development of the 1992 AMA questionnaire on Workplace Drug Testing and Drug Abuse Policies:

- Francine Picoult, Office of National Drug Control Policy
- Lew Maltby, American Civil Liberties Union
- Dr. Dale Masi, Masi Research Consultants

Data gathering, tabulation, and analysis are the entire responsibility of AMA Research.

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AMA RESEARCH

AMERICAN MANAGEMENT ASSOCIATION

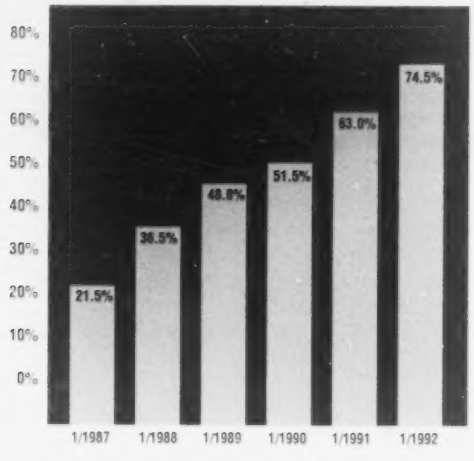
Workplace Drug Testing and Drug Abuse Policies

In 1991 more companies tested more employees and job seekers for controlled or illegal substances, and the data from AMA's sixth annual survey on workplace drug testing and drug abuse policies points to a decline in drug use among both workers and applicants.

Survey findings reveal five years of exponential growth in corporate initiatives that deal with drug abuse. In 1987, fewer than half the surveyed firms sponsored **any** policy or program in this area; as of January 1992, 90 percent of the AMA sample were actively combatting drug use.

Although the overall rise in drug testing has been dramatic (a 250 percent increase since 1987), the greatest change has been in policies that determine who is tested and for what reasons. In 1987 the rule among companies with testing programs was to test employees only when job performance indicated drug abuse. The past five years have witnessed a tenfold increase in the

Workplace Drug Testing, 1987 – 1992



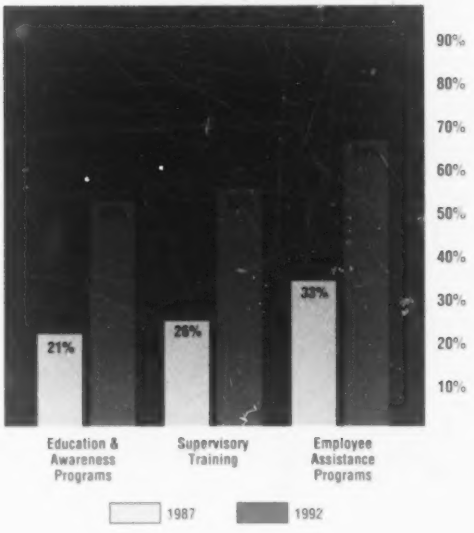
number of companies that subject employees to periodic or random tests. Job applicants, too, are increasingly likely to face a drug test in a pre-employment physical examination. For the first time, more than half of surveyed firms report testing all new hires.

Why the increase? State or local laws, regulations issued by the U.S. Departments of Transportation and Defense, and the practical effects of the Federal Drug-Free Workplace Act are responsible in part. But health-care costs and liability insurance constitute a hidden factor driving testing programs — and their costs — ever upward.

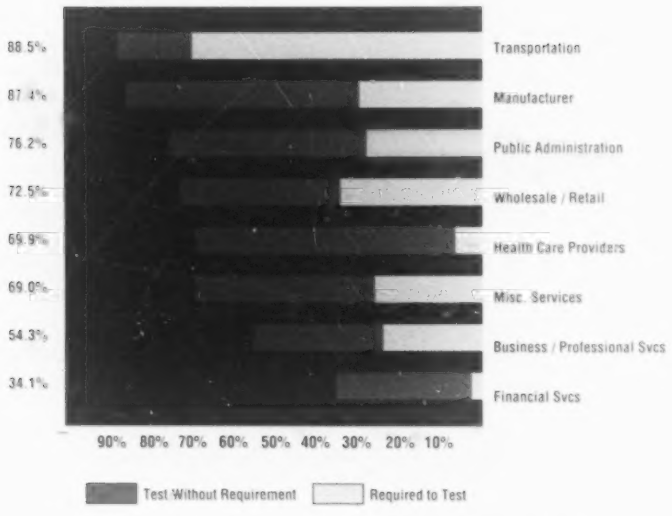
Summary of Key Findings

Other drug-abuse programs have grown, though at a slower pace than testing. The share of firms running education and awareness programs has increased 148 percent since 1987; supervisory training to spot behavior indicating drug use, 115%; and employee assistance programs to counsel and treat abusers, 106%.

Drug Abuse Policies



Effect on Government Regulations

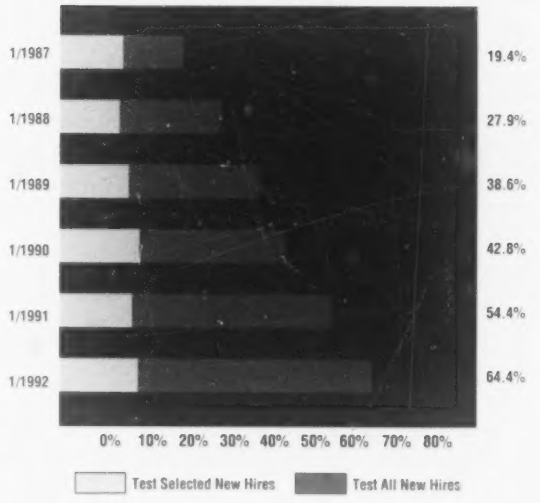


Department of Transportation regulations that require periodic testing in specific job categories compel a majority of transportation firms to test and affect many manufacturers and wholesale and retail traders. Few health care providers must test, but many do; few financial concerns must test, and most don't.

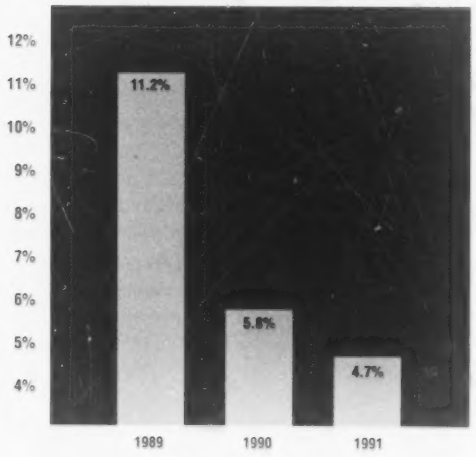
Testing New Hires

Job applicants are increasingly likely to face drug tests in a pre-employment physical exam. Although smaller firms are less likely to test than larger ones (and most American businesses employ fewer than 100 people), the data suggests that one-third of all U.S. job-seekers will be tested in 1992.

Testing Job Applicants, 1987–92



Test Positive Ratios (Job Applicants)



As pre-employment testing becomes the norm, and as more companies explicitly state that applicants will be tested, test-positive ratios among job-seekers has declined.

Pre-employment testing does not provide a histogram of drug use; it can only trace recent use. In effect, such testing is as much behavioral as medical: can the subject "stay straight" while engaged in a job search?

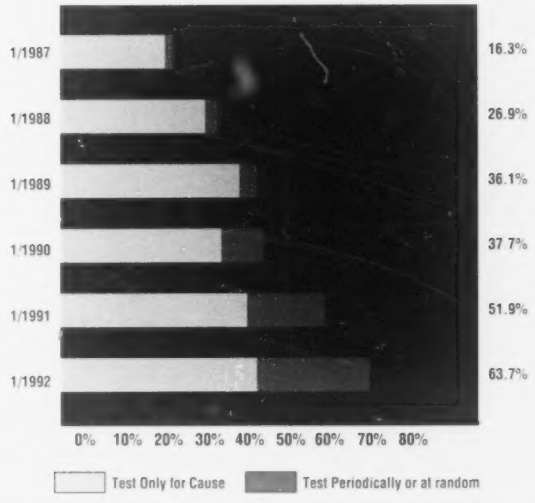
If he or she cannot, 95 percent of firms that test new hires withdraw the job offer, while less than one percent hire test-positive applicants on a probationary basis.

Testing Current Employees

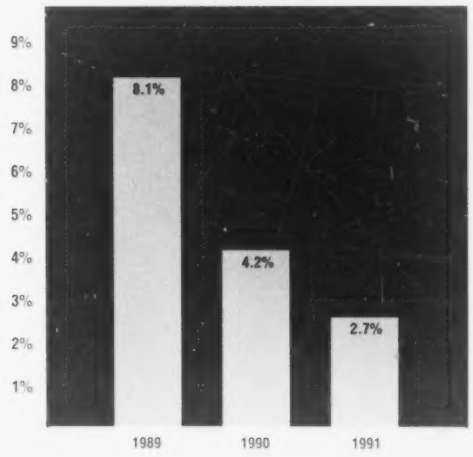
While overall testing of current employees has more than tripled since 1987, periodic or random testing has increased 1000 percent.

Most American workers are not drug users; therefore **the wider the testing pool, the lower the test-positive ratio.** With a lesser percentage of tests administered "for cause" (that is, on suspicion of drug use or after workplace accidents) and a greater number on a random or periodic basis, the test-positive ratio has dropped in each of the past two years.

Testing Current Employees, 1987–92



Test Positive Ratios, Employees



Naturally, a group with identified symptoms of drug abuse (absences, illness, a demonstrable decline in job performance) will score a higher test-positive rate than a group selected at random. In companies that test **only** on suspicion of use, the test-positive rate was one in three; in firms that test only periodically or at random, it was one in two hundred and fifty.

Among firms that tested 25 employees or more (indicating a random or periodic testing policy), the test-positive rate was 2.4%; among those that tested fewer than 25 employees (indicating "for cause" testing only), the rate was 25.2%.

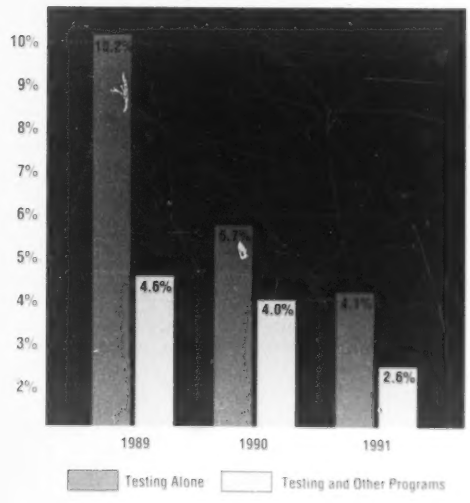
Combatting Workplace Drug Abuse

Drug testing is rarely a standalone policy. Only 6.5 percent of the sample counts on testing alone to deal with drug use among current employees. Nearly four times as many do no employee testing, but rely on education and awareness programs, supervisory training, and/or employee assistance programs to keep the workplace environment drug-free.

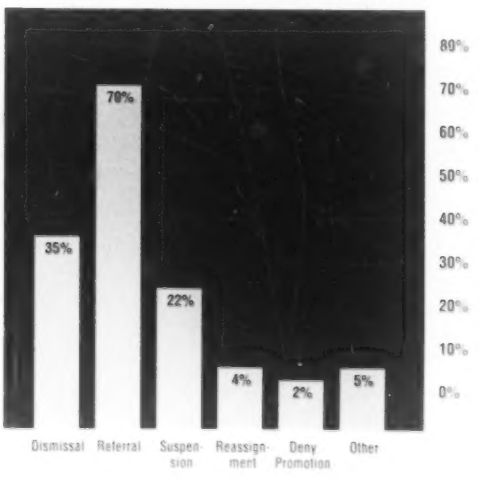
The majority of companies that combine testing with these other initiatives continue to report significantly lower employee test-positive ratios than do companies that rely only on employee testing.

Although one-third of those that test employees list "dismissal" as an action on positive test findings, firing is often a policy of last resort after other options (such as counselling and treatment) have failed.

Test – Positive Ratios by Programs

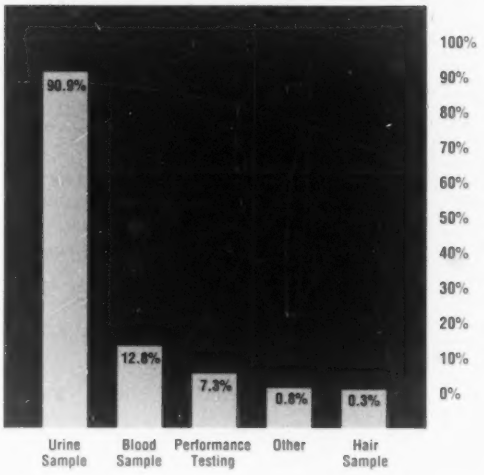


Action on Test – Positive Employees

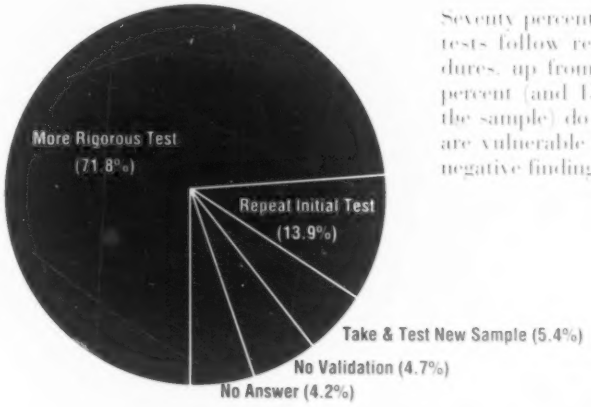


Urine sampling continues to be the preferred method of testing. Performance testing, an alternative to medical testing, confirms that the test subject is capable of performing job tasks at the time those tasks are to be done.

Testing Methods Employed



Validation Policies



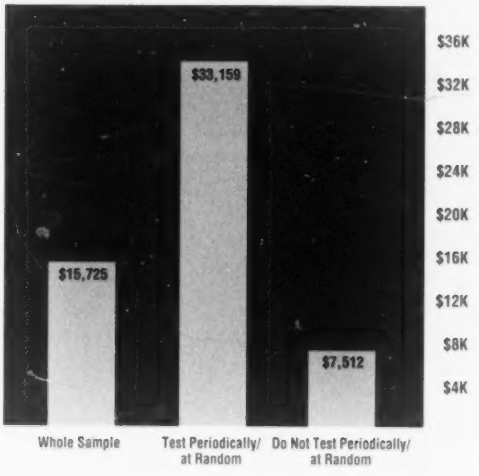
Seventy percent of respondents employing urine tests follow recommended validation procedures, up from 63 percent in 1990. But five percent (and 15% of the smaller companies in the sample) do no validation testing at all, and are vulnerable to both false positive and false negative findings.

Most companies find testing relatively inexpensive, but as programs become more inclusive, costs rise exponentially. Companies that test employees on a random or periodic basis report average costs four times higher than companies that do not.

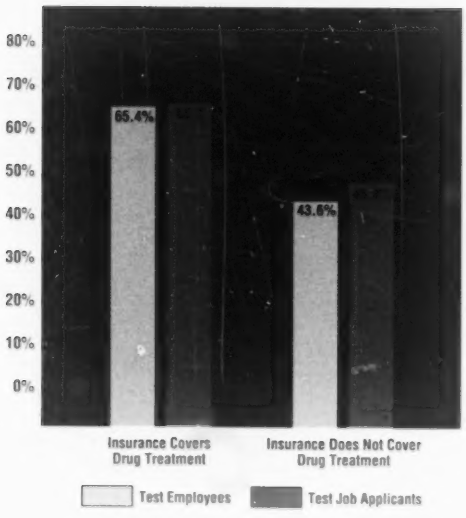
Nineteen respondent firms reported annual costs in excess of $100,000; all of them perform periodic or random tests.[7]

Despite these costs, a scant 7.5 percent of companies that test have attempted a cost-justification study of testing programs. But companies whose expenditures topped the 1991 average of $15,725 were twice as likely to have made such a study as those who spent less.

Average Cost of Testing Programs, 1991



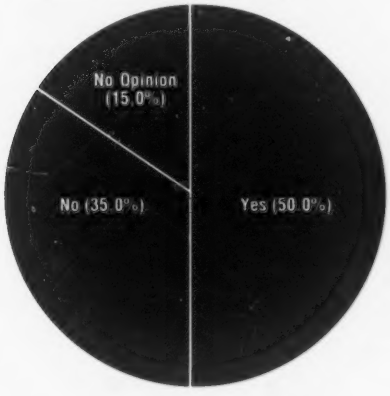
Health Care Coverage and Drug Testing



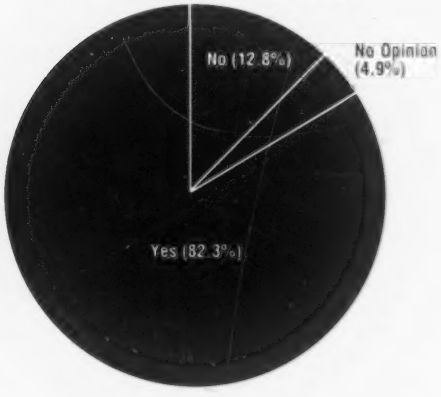
Concerns about health care costs affect testing policies. Companies whose health insurance covers drug treatment are far more likely to test both employees and job applicants: treating employees and refusing employment to identified users will lower health care costs in the long run.

Also, firms that test for drugs can demonstrate "due diligence" in liability cases — all the more important for the 37 percent of the sample whose insurance does not cover accidents caused by drug-impaired workers.

Is Testing Effective? (1987)



Is Testing Effective? (1992)



Workplace testing has proven its worth to most human resources managers in organizations that practice it. Certainly the increase since 1987 in the percentage of practitioners who consider testing an effective way of combatting workplace drug abuse bears testimony to that fact. Moreover, 83 percent of companies that do not test express approval of drug testing.

Nevertheless, the percentage of survey respondents who do not test, but who deal with workplace drug abuse through education, supervisory training, and employee assistance programs has increased from 12 percent in 1987 to a current 24 percent. These firms follow the letter of the Drug-Free Workplace Act, which does not mandate testing but does require government contractors to certify that theirs is a drug-free work environment.

Four survey respondents had testing programs at one time which they have since discontinued; 13 more have discontinued some programs while keeping others. In light of the ongoing increase in testing programs, this is by no means a trend. But the scarcity of companies that have studied the cost-effectiveness of testing programs, the availability of performance testing, and the legal challenges to current medical testing programs make it evident that the final book on workplace testing has not yet been written.

RESEARCH

AMA

About this Survey

AMA's sixth annual survey questionnaire on workplace testing was mailed on January 17, 1992, to 13,218 human resources managers. While more than 1,350 responses were received by March 1, we entered data from 1,200 respondent firms — 9.2% of all mailed — to form the database for the present study.

While not identical to the database in previous years, this self-selecting sample is sufficiently like those of earlier surveys to allow statistically valid year-to-year comparisons. The 1992 sample presents the following statistical profile:

SIC Classification

- Agriculture, Forestry, & Fishing 0.4%
- Mining & Mineral Extraction 0.8%
- Construction 1.0%
- Manufacturing 45.0%
- Transportation 2.2%
- Communications 2.6%
- Utilities 2.4%
- Wholesale Trade & Distribution 2.1%
- Retail Trade 3.7%
- Finance, Insurance, and Real Estate 7.6%
- Business & Professional Services 7.3%
- Other Services 21.0%
- Public Administration 1.3%
- Unclassified and Unclassifiable Establishments 1.9%

Annual Sales*

- Under $10 million 10.5%
- $10-$49 million 27.3%
- $50-$249 million 28.4%
- $250-$500 million 7.9%
- Over $500 million 15.8%
- Not Reported 10.1%

*or operating budget, for nonprofit organizations

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AMA RESEARCH

AMERICAN MANAGEMENT ASSOCIATION

AMA

1992 AMA SURVEY ON QUALITY AND CUSTOMER SATISFACTION PROGRAMS

A Research Report published exclusively for corporate members of the American Management Association

AMA Research Reports
Eric Rolfe Greenberg, Editor
Carol Canzoneri, Data Processing Associate
Isabelle Hofmann, Intern

This research was designed and implemented in conjunction with the Corporate Affairs Practice Group of Ogilvy Adams & Rinehart. Tabulations and data analysis are the entire responsibility of AMA Research Reports.

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Quality and Customer Satisfaction

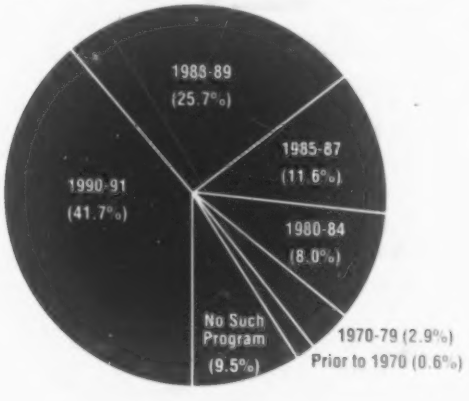
Imagine two pens, exactly alike in design and selling at the identical price of seventy-nine cents. One bears a tag reading "Guaranteed for three months;" the other, a tag reading "Guaranteed for six months."

Looking for the better bargain, you buy the latter pen. It runs dry after four months. You return to the stationers; this time you buy the pen with the three-month guarantee. And like the first pen, it performs for four months.

Same pen. Same price. Same performance. But you are unhappy with the first, because it failed to meet expectations; you are delighted with the second, because it exceeded expectations.

This example, from AMA author John Guaspari, makes the basic point: **Quality is a function of customer expectation measured against performance.** And more than 100 years after Frank Woolworth built his business on the theory that "the customer is always right," a renewed awareness of the customer's role in defining quality guides American corporations as they rush to build programs that assure quality and improve customer satisfaction.

Quality and Customer Satisfaction Programs

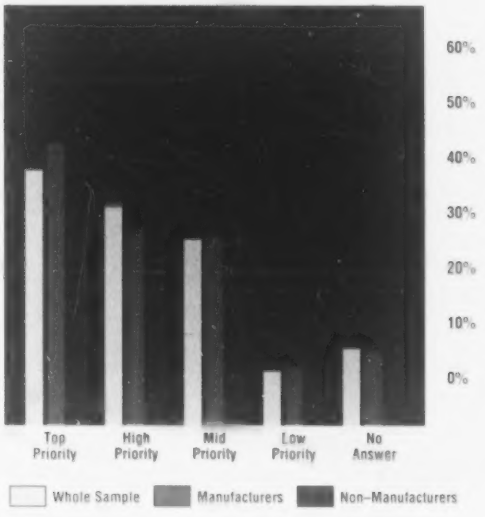


"Rush" is the operative word. While nine out of ten surveyed firms have programs on line, nearly half of them were established in the past two years, and the average program is not yet five years old.

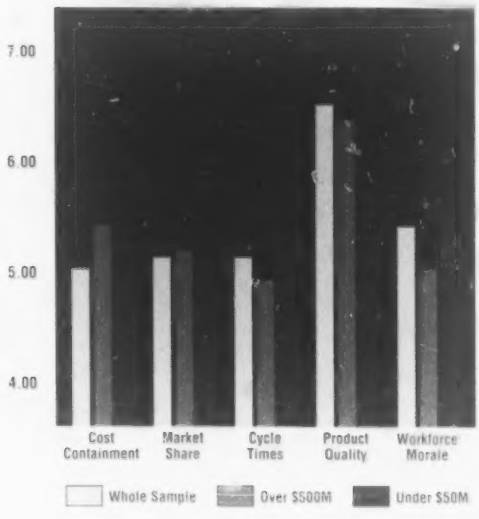
Summary of Key Findings

If the growing presence of quality and customer satisfaction programs is the good news, their priority (compared with other corporate initiatives) is the bad news. Fewer than half of the respondent firms say that the program has "top priority" in the organization. Overall, manufacturers tended to give their quality programs a higher priority than did service providers.

Program Priority Within Organization

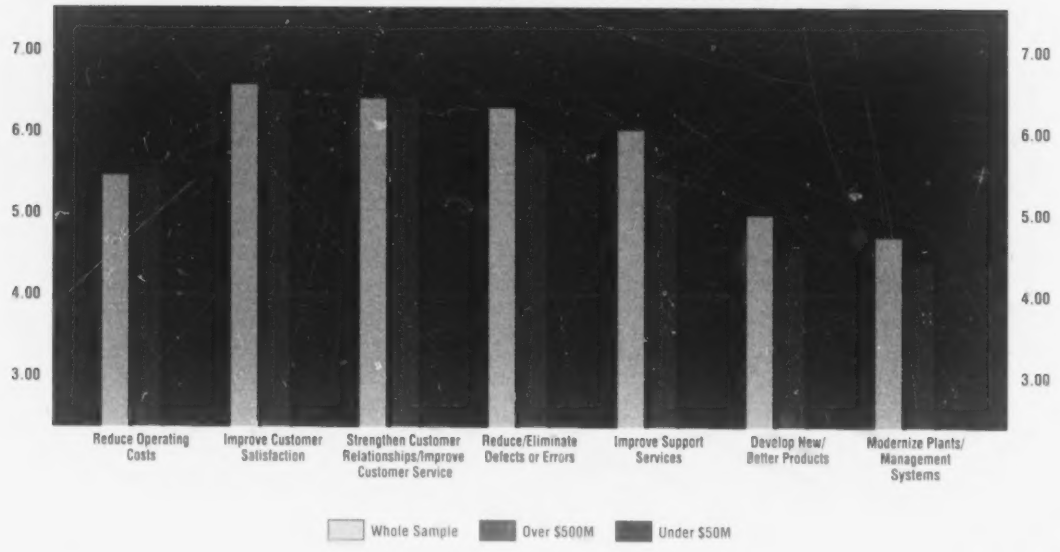


Rationales for Establishing Programs



Ranked on a seven-point scale, **product quality** scored highest among the reasons for establishing quality/customer satisfaction programs. Cost factors were more important to large companies, while cycle times — the ability to bring new products to market in a hurry — were of greater concern to smaller firms.

Components of Quality / Customer Service

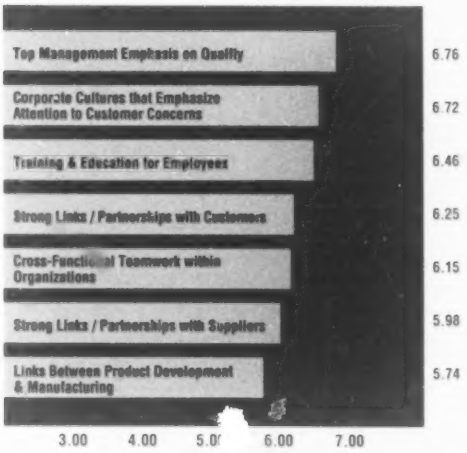


Program Components: "Quality" and "customer service" mean different things to different companies. While there was a goodly measure of agreement among respondent firms on the relative importance of various components, again we found that cost issues were a greater concern to large firms.

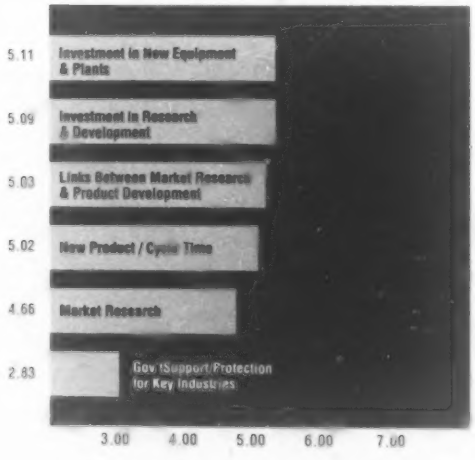
Note also the leading scores given to the definitions "Improve Customer Satisfaction" and "Strengthen Customer Relationships" on a seven-point scale. Quality is not measured by an engineer's calipers; it is defined by the customer using the product or service.

Elements of Success: Asked to gauge the importance of various elements in a company's ability to produce quality goods and provide quality service, respondents confirmed that quality is an **intellectual** phenomenon. The top-rated elements of success, presented here as averages on a seven-point scale, all have to do with interpersonal and cultural factors, rather than machinery and financial investment.

Highly Rated Elements of Success



Lesser Rated Elements of Success (Manufacturers Only)

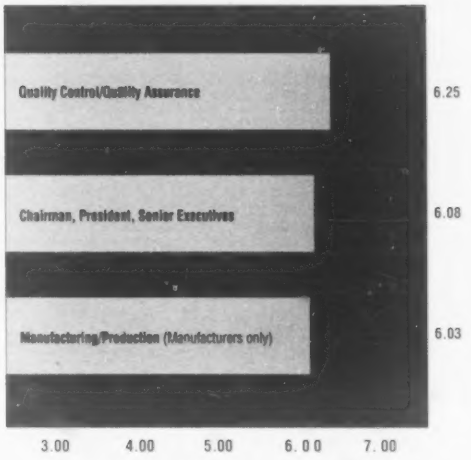


Why does "market research" rate so low? Compared to ongoing partnerships with external customers and linkage with internal customers, market research is slow, cumbersome, expensive — and impersonal.

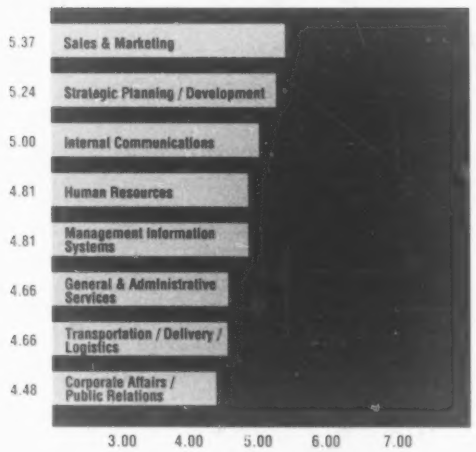
Because several of the lesser-rated elements are applicable only to manufacturers, the averages reported here are from manufacturing firms only.

Departmental Involvement: Despite the awareness that interdepartmental teamwork and employee training are key elements of success in providing quality goods and services, in actual practice everyone is not on board. Ideally **all** departments should be highly involved, but only three sectors — and those the obvious ones — were reported to be highly involved in the process, as indicated by averages on a seven-point scale.

The Improvement Process— Highly Involved Departments



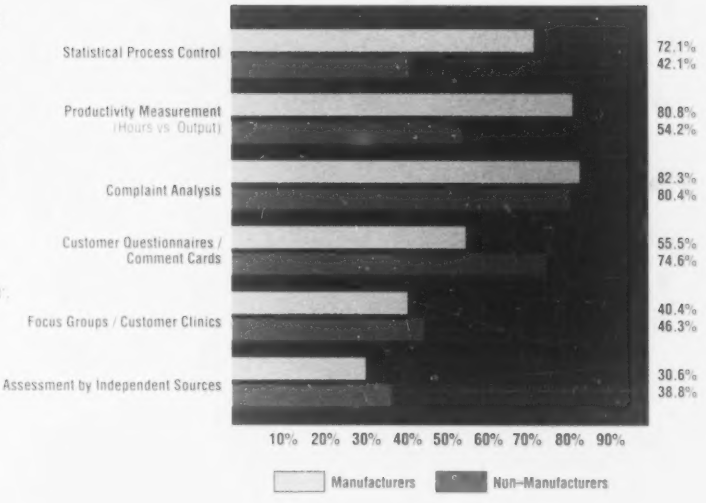
The Improvement Process— Less Involved Departments



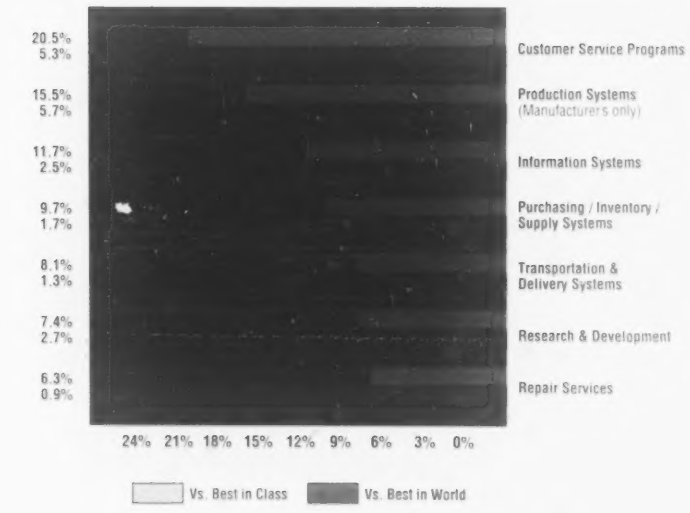
Respondents revealed important contradictions between their "elements of success" ratings (p. 4) and departmental involvement in quality improvement. Training and education scored very high as a success factor, but just a third of respondent firms said that the human resources department was highly involved (i.e., scored 6 or 7 on the seven-point scale) in the improvement process. Also, despite the high marks for cross-functional teamwork as a success factor, few respondents reported high involvement by management information systems (31%) or internal communications (25%).

Tracking Improvement: How do companies know if they're succeeding? Both manufacturers and service providers give highest marks to complaint analysis — the most direct way of listening to customers and understanding their needs. Note that comparatively few non-manufacturers measure hours versus output — although many bill by the hour.

TRACKING QUALITY IMPROVEMENT

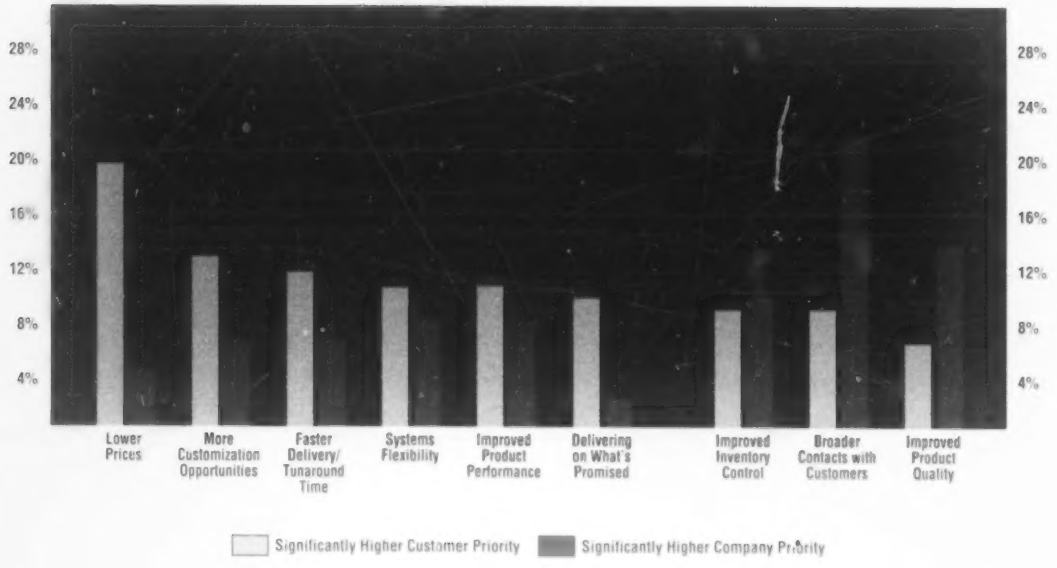


BENCHMARKING



Benchmarking: Only 27 percent of respondent firms do any sort of benchmarking — a formal comparison between one's own processes and those of acknowledged leaders. Only a handful benchmark any internal functions against **world** leaders.

Mismatched Priorities



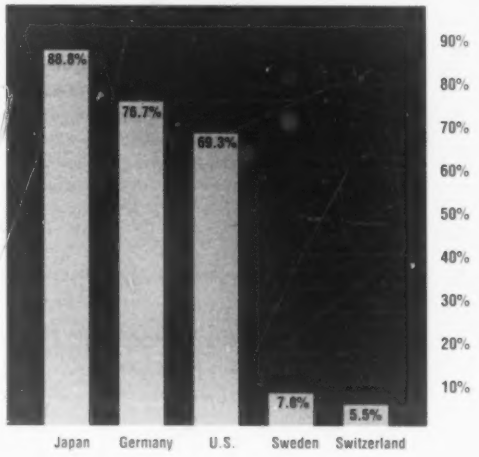
Customer and Company Priorities. Most respondents judge that specific quality and customer satisfaction issues are of roughly equal importance to their own firms and to their customers. However, there are instances where a firm's customers place a higher priority on an issue than the company does, and, conversely, where an issue matters more to the company than to its customers.

To those respondents, the first six issues listed on the graph rate significantly higher as customer concerns than corporate concerns; the last three have higher priority within the company than among its customers.

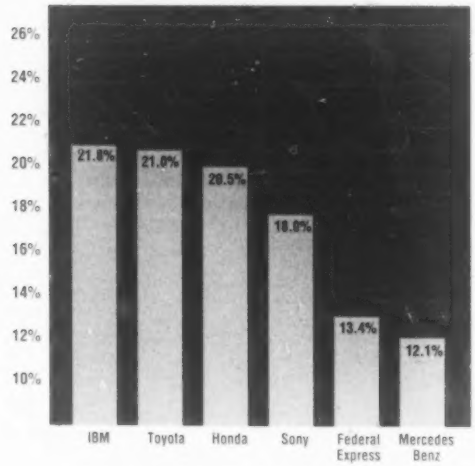
Again, it is important to emphasize that nearly three-quarters of all respondent firms thought that corporate and customer concerns matched up well. The graph shows the exceptions to the rule.

Quality Leaders: These findings represent **personal** rather than corporate opinion. We asked respondents to list the three nations that, in their opinion, achieve the highest overall level of quality and customer satisfaction for their products and/or services. Japan was listed **first** by 70 percent of survey participants, and among the top three by nearly 90 percent. Germany was listed first by 11 percent; the U.S., by 9 percent.

Nations Offering Highest Quality/ Customer Satisfaction



Companies Offering Highest Quality/ Customer Satisfaction



We also asked respondents to list the three companies that rate highest in quality and customer satisfaction. To this open-ended query, respondents wrote in 149 different companies; the leaders, mentioned by over 20 percent of the sample, enjoy a very high level of consensus.

While IBM led the list, only two of the six companies most frequently nominated are based in the U.S.

RESEARCH

AMA

About this Survey

The AMA questionnaire on quality and customer satisfaction programs was mailed on October 25, 1991 to 6,535 managers in companies that are corporate members of the American Management Association. By November 22, we had 528 usable responses, a return rate of 8.1 percent.

This self-selecting sample presents the following statistical profile:

Business Category

- Mining & Mineral Extraction 0.4%
- Construction 0.6%
- Manufacturing 47.2%
- Transportation, Communications, & Utilities 7.4%
- Wholesale Trade & Distribution 4.4%
- Retail Trade 3.2%
- Finance, Insurance, Real Estate 7.2%
- Services 22.9%
- Public Administration 0.6%
- Unclassified & Unclassifiable Establishments 6.3%

Annual Sales

- Under $10 million 15.2%
- $10-$49 million 34.5%
- $50-$249 million 25.8%
- $250-$499 million 7.4%
- $500 million or more 14.6%
- Not Reported 2.7%

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AMA RESEARCH

AMERICAN MANAGEMENT ASSOCIATION

AMA

1992 AMA SURVEY ON BASIC SKILLS TESTING AND TRAINING

A Research Report published exclusively for corporate members of the American Management Association

AMA Research Reports

Eric Rolfe Greenberg, Editor
Carol Canzoneri, Data Processing Associate
Isabelle Hofmann, Intern

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AMA RESEARCH

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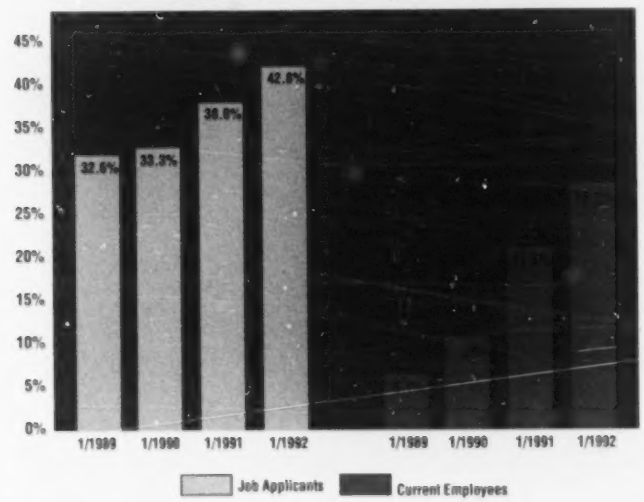
AMA

Basic Skills Testing and Training

While companies inch towards solutions to the problem of skills-deficient job applicants and employees, the problem itself grows by leaps and bounds. More than a third of the job applicants tested for basic reading and/or math skills in 1991 lacked the necessary skills to do the job they sought — an increase from 26 percent in each of the past two years.

The corporate response to this growing crisis is two-tiered: to test applicants and employees to determine skill levels, and then to train employees (and in rare instances job applicants) who reveal deficiencies when tested. But the rate of increase in both categories — testing and training — slowed in 1991 as corporate budgets came under recessionary pressures.

Basic Skills Testing, 1989-92



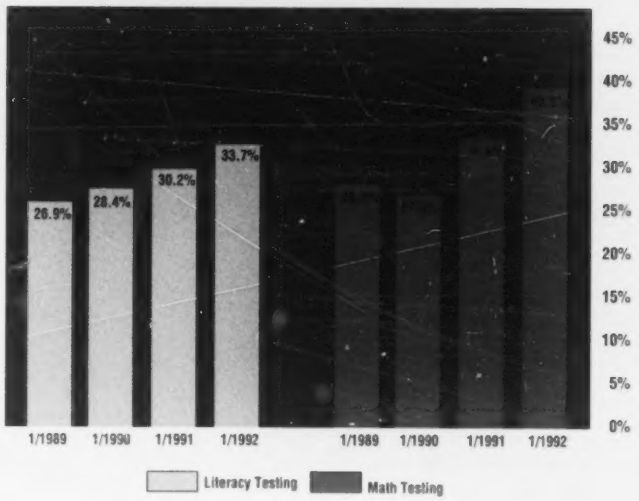
Among the 1,200 companies participating in the 1992 survey on workplace testing, manufacturers seem most aware of the dimensions of the problem and lead in efforts to deal with it. The awareness derives from a higher-than-average deficiency rate among applicants in manufacturing companies (39%); in response, manufacturers lead all business categories in remedial training programs (26%). Compare this with providers of financial services, who had a deficiency rate of 31 percent — but only 8 percent sponsor training programs.

Summary of Key Findings

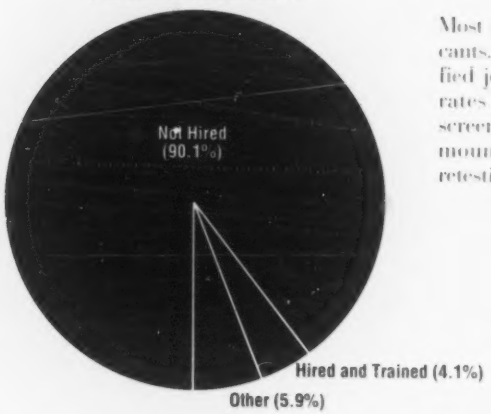
The AMA questionnaire defined functional workplace literacy as "the ability to read instructions, write reports, and/or do arithmetic at a level adequate to perform common workplace tasks." Basic skills testing seeks to discover if job applicants or employees possess those abilities.

Job Applicant Testing: A third of the sample tests literacy levels, while 40 percent test math skills, where deficiency rates are higher. The share of companies that do any applicant testing rose 13 percent in 1991, slightly below the 1990 rate of increase (14 percent).

Job Applicant Testing, 1989-92



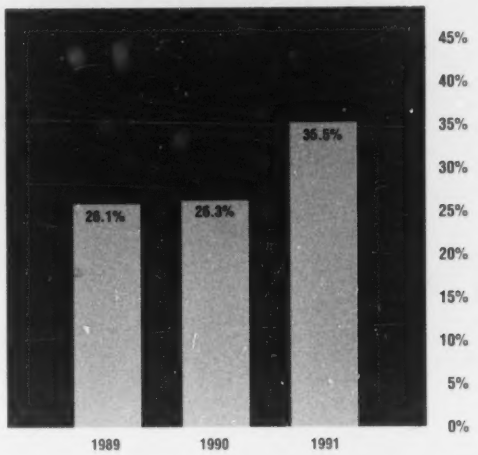
Action on Skills – Deficient Applicants



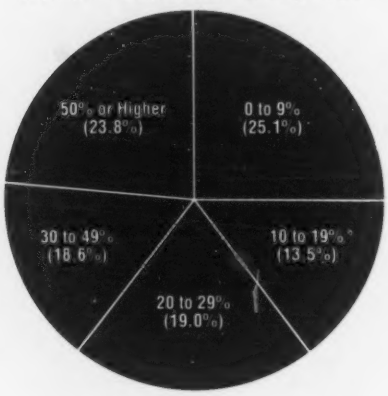
Most companies do not hire skills-deficient applicants, believing that a sufficient number of qualified job-seekers are available. But as deficiency rates rise, more and more applicants must be screened to fill open positions, and hiring costs mount. In the chart, "other" actions include retesting at a later date.

An increasing number of jobs require solid mathematical skills, which is why more companies test in math than reading. But there are fewer qualified applicants for those positions. Among companies that test **only** math skills, the deficiency rate was 46 percent; among firms that test only reading skills, the rate was 27 percent.

JOB APPLICANT DEFICIENCY RATES, 1989-91



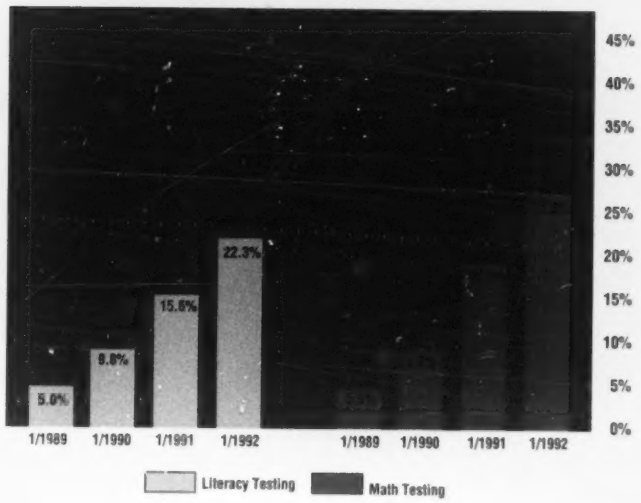
RANGE OF DEFICIENCY RATES, 1991



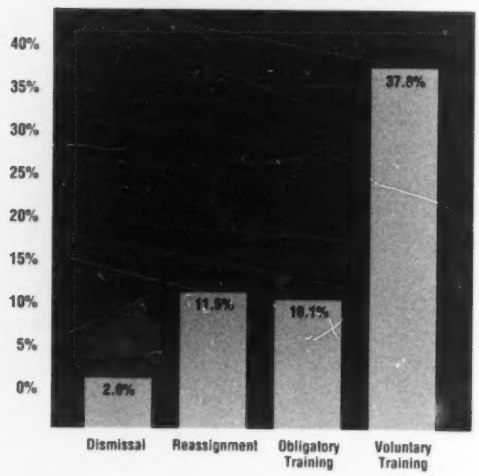
In 1991, companies were almost as likely to report deficiency rates above 50 percent as under 10 percent. Twenty-two respondent firms reported deficiency rates of 70 percent or higher.

Employee Testing: Testing the basic skills of employees, which doubled in 1989 and again in 1990, rose 35 percent in 1991. As with job applicants, employees are more likely to have their math skills tested than their reading levels.

EMPLOYEE TESTING, 1989-92

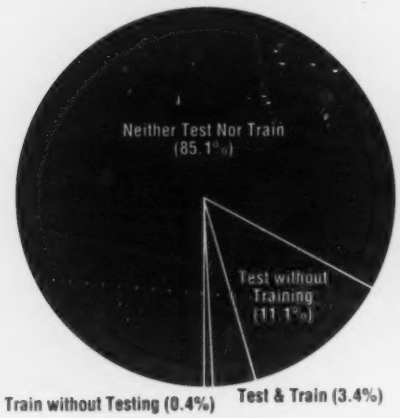


ACTION ON SKILLS – DEFICIENT EMPLOYEES

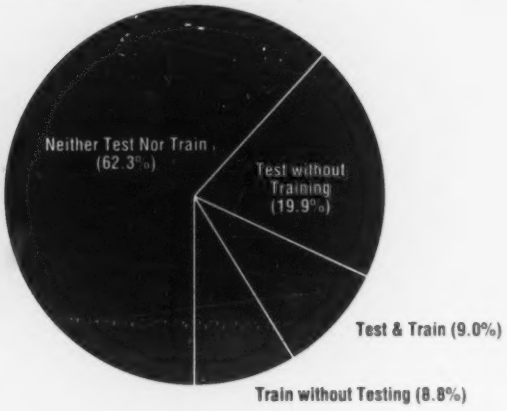


Employers are far more likely to offer **voluntary** remedial training to skills-deficient workers than to insist on obligatory enrollment. A downward trend continues in the share of firms that dismiss skills-deficient employees, from 6 percent in 1990 to 4 percent in 1991 to 2 percent today.

Policy Options (Employees), 1989



Policy Options (Employees), 1992

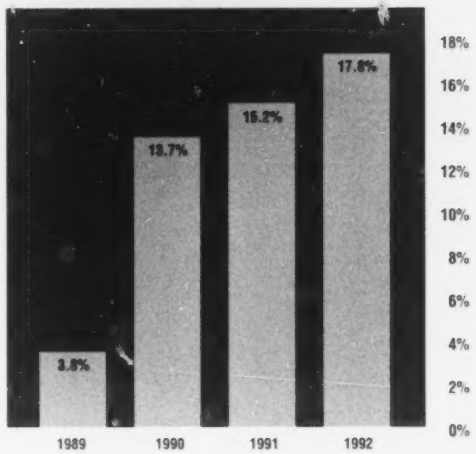


The past three years have seen a significant increase in the share of companies that both test and train employees, and there is a high correlation between testing policies and remedial training programs. Testing demonstrates the need; remedial training is an attempt at a solution.

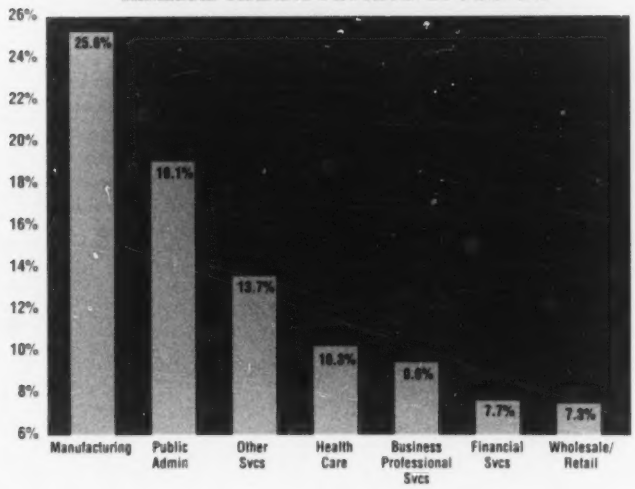
The larger the company, the more likely it is both to test employees and applicants and to train those with deficiency skills. Public administration units, compelled by civil service regulations, lead in employee testing (90%), while manufacturers are most likely to provide training (26%).

With the recession, the rate of growth in remedial training programs has slackened. Concurrent cuts in public education budgets make it likely that the available pool of skills-sufficient workers will be inadequate to fill corporate needs, creating a greater demand for employer-provided training.

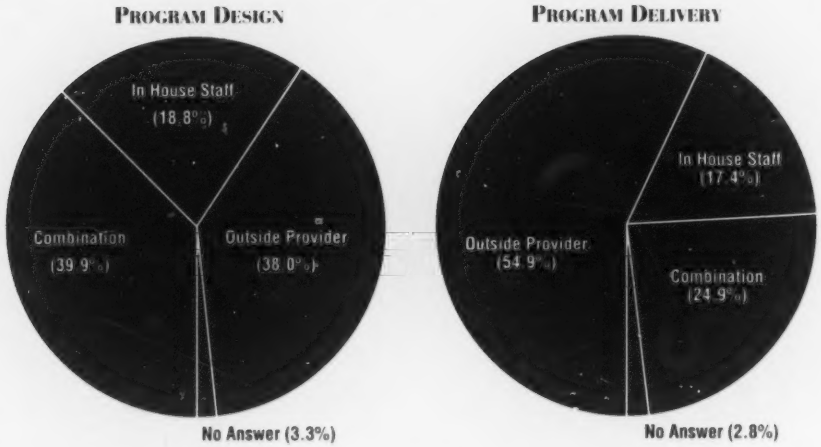
Provide Remedial Training



Remedial Training Programs by Industry



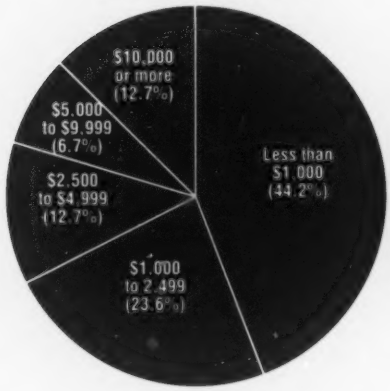
Despite higher-than-average deficiency rates among applicants, providers of financial services sponsor training programs at less than half the national rate. Retailers, with typically high employee turnover rates on the selling floor, are least likely to train their workers.



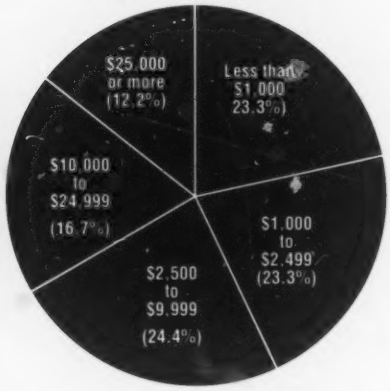
Experts in adult education advise that training works best when it relates directly to actual job requirements. They recommend that employers take a hand in customizing remedial training programs to fit the company and its workers.

But the trend is running the other way. In 1991, the share of respondent firms that place course design entirely in the hands of outside vendors rose to 38 percent from 29 percent, and the share that rely wholly on outsider providers to deliver the courseware rose to 54 percent from 39 percent.

TESTING COSTS, 1991



TRAINING COSTS, 1991



Driven upwards by four large firms that spent more than $100,000 (including one that spent $2.5 million), the average cost of testing programs in 1991 was $27,206. But two-thirds of the firms reporting costs spent less than $2,500.

The costs of training programs vary widely, depending on such variables as overhead costs and whether classroom hours are paid or unpaid time for trainees (respondents report a 50-50 split in pay policies). In 1991 the average corporate cost for remedial training was $12,586, or $167 per employee trained.

RESEARCH

AMA

About this Survey

AMA's sixth annual survey questionnaire on workplace testing was mailed on January 17, 1992, to 13,218 human resources managers. While more than 1,350 responses were received by March 1, we entered data from 1,200 respondent firms — 9.2% of all mailed — to form the database for the present study.

While not identical to the database in previous years, this self-selecting sample is sufficiently like those of earlier surveys to allow statistically valid year-to-year comparisons. The 1992 sample presents the following statistical profile:

SIC Classification

- Agriculture, Forestry, & Fishing 0.4%
- Mining & Mineral Extraction 0.8%
- Construction 1.0%
- Manufacturing 45.0%
- Transportation 2.2%
- Communications 2.6%
- Utilities 2.4%
- Wholesale Trade & Distribution 2.1%
- Retail Trade 3.7%
- Finance, Insurance, and Real Estate 7.6%
- Business & Professional Services 7.8%
- Other Services 21.0%
- Public Administration 1.8%
- Unclassified and Unclassifiable Establishments 1.9%

Annual Sales*

- Under $10 million 10.5%
- $10-$49 million 27.3%
- $50-$249 million 28.4%
- $250-$500 million 7.9%
- Over $500 million 15.8%
- Not Reported 10.1%

*or operating budget, for nonprofit organizations.